

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2005: budgetary surplus of \$2.4 billion

There was a budgetary surplus of \$2.4 billion in January 2005, up from the surplus of \$0.8 billion recorded in January 2004. This year-over-year increase is due principally to timing factors related to the inclusion of one extra processing cycle for personal income tax receipts, which last year occurred in February. Consequently, personal income tax receipts—and therefore the monthly budgetary surplus—will fall off considerably in February 2005. As well, the surplus was bolstered by very strong net goods and services tax (GST) receipts, which grew 29.3 per cent, well in excess of the growth in taxable consumption. The growth in net receipts is due to ongoing weakness in GST refunds. Over the course of the full fiscal year, growth in GST refunds should pick up to more closely reflect the increase in gross revenues, and therefore net receipts will be more reflective of the growth in taxable consumption. Program expenses were up by \$1.8 billion in January 2005, while public debt charges were \$0.1 billion lower.

April 2004 to January 2005: budgetary surplus of \$13.4 billion

For the first 10 months of the 2004–05 fiscal year (April to January), the budgetary surplus is estimated at \$13.4 billion, up \$5.3 billion from the surplus reported in the same period of 2003–04. This improvement reflects the above-mentioned timing factors, which will unwind in February, the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as increases in most revenue components, consistent with the growth in the economy. *Monthly results to date do not reflect the significant measures announced in the 2005 budget or the cost of the federal-provincial agreements on health care and equalization/Territorial Formula Financing (TFF). Together, these measures total nearly \$11 billion.* Their cost will be reflected in the monthly fiscal results once the enabling legislation receives Royal Assent.

January 2005: budgetary results

The January 2005 budgetary surplus was estimated at \$2.4 billion, up from the surplus of \$0.8 billion in January 2004.

Budgetary revenues totalled \$18.8 billion in the month, up \$3.3 billion or 21.4 per cent from January 2004. This rise is due to significantly higher personal income tax receipts as well as increases in GST and corporate tax receipts.

- Personal income tax revenues increased \$1.5 billion or 20.5 per cent. However, this extraordinary gain reflects timing factors—there were more processing cycles for monthly withholdings in January 2005 compared to the same month last year—rather than underlying

increases in income or employment. These factors will reverse in February 2005.

- Corporate income tax revenues were up \$0.5 billion or 23.6 per cent, reflecting the year-over-year growth in corporate profits.
- Excise taxes and duties were up \$0.7 billion due to higher GST receipts, which were up \$0.7 billion or 29.3 per cent. The sharp rise in GST receipts reflects strong gross receipts in January, but also a continuing weakness in GST refunds, which have been very low year-to-date relative to the level of gross GST receipts. Customs import duties fell \$12 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge rose \$40 million.



The Fiscal Monitor

- Employment insurance (EI) premiums were up 34.1 per cent, reflecting adjustments for under-reporting in previous months.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 2.9 per cent. This revenue component is volatile on a monthly basis.

Program expenses totalled \$13.6 billion in January 2005, up \$1.8 billion or 15.5 per cent from January 2004 due to increases in transfer payments and other program expenses.

Total transfer payments were up \$0.8 billion or 9.7 per cent in January 2005.

- Major transfers to persons, consisting of elderly and EI benefits, were 7.4 per cent higher on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were up 12.2 per cent due to an increase in regular benefits, reflecting the inclusion of an additional payment cycle in January 2005 compared to January 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 9.1 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 7.9 per cent from January 2004, primarily reflecting the impact of recoveries in the 2003-04 fiscal year of overpayments made in prior years.
- Subsidies and other transfers were up 15.7 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 26.8 per cent, due to both higher Crown corporation expenses and higher expenses related to defence and other departments and agencies. Defence expenses rose \$0.1 billion or 15.1 per cent, while expenses for all other departments and agencies rose \$0.8 billion or 30.7 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from previous budgets.

Public debt charges were 3.6 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

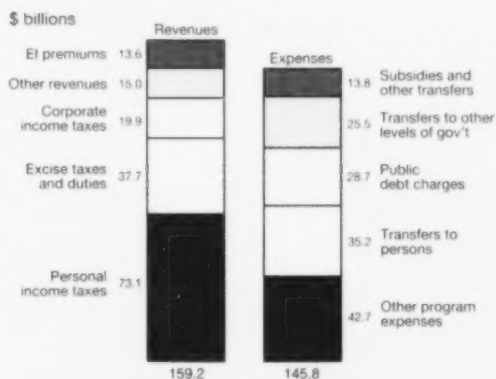
April 2004 to January 2005: budgetary results

In the first 10 months of 2004-05, there was a budgetary surplus of \$13.4 billion, up \$5.3 billion from the \$8.1-billion surplus reported in the same period of 2003-04.

Budgetary revenues increased \$10.6 billion, or 7.1 per cent, to total \$159.2 billion. This increase reflects gains in tax revenues and other revenues, including \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$5.0 billion or 7.3 per cent. The year-over-year increase was higher than it otherwise would have been due to the extra processing cycle

Revenues and expenses (April 2004-January 2005)



that boosted personal income tax receipts in January 2005, as discussed above. The increase also reflects higher employment and wages and salaries through the year.

- Corporate income tax revenues were up \$0.8 billion or 3.9 per cent. The year-to-date gain in corporate receipts reflects the impacts of large tax settlement payments received from the financial sector in December 2003 related to the revaluation of their U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 20 per cent year-to-date, in line with the growth in corporate profits.
- Excise taxes and duties increased \$2.9 billion or 8.2 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were up 11.8 per cent. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 3 per cent year-to-date). Over the balance of the year, it is expected that the growth in GST refunds will pick up to more closely reflect the increase in gross revenues, which were up 7.2 per cent year-to-date. Customs import duties were also up (3.5 per cent), while there were declines in both sales and excise taxes (down 0.4 per cent) and the Air Travellers Security Charge (down 3.0 per cent).

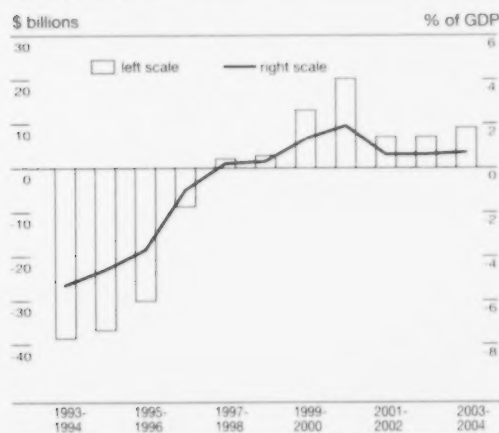
- EI premiums fell \$0.4 billion or 2.6 per cent, reflecting the reduction in premium rates from \$2.10 in 2003 to \$1.98 in 2004 and the further reduction to \$1.95 in 2005.
- Other revenues increased \$2.0 billion or 19.4 per cent. This increase reflects the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April 2004 to January 2005 period were up 5.8 per cent to \$117.1 billion. Program expenses are expected to increase significantly over the balance of the year as the two proposed First Ministers' agreements on health care and equalization/TFE, and the measures proposed in the 2005 budget, receive Royal Assent. Public debt charges were \$1.1 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

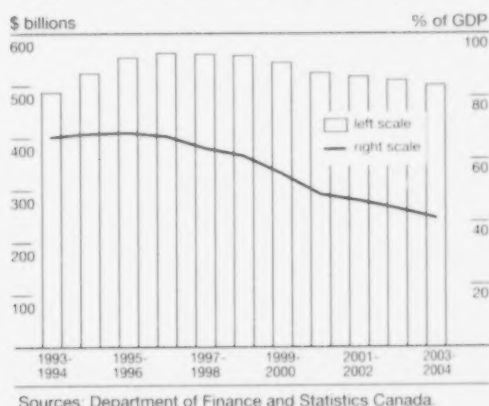
Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.9 billion or 5.5 per cent.

- Transfers to persons advanced by \$0.7 billion or 2.2 per cent. Elderly benefits were up 3.6 per cent, while EI benefits were down 0.5 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.

Budgetary balance



Federal debt (accumulated deficit)



The Fiscal Monitor

- Transfers to other levels of government were up \$2.0 billion or 8.7 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 8.3 per cent, primarily reflecting the impact on the 2003-04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care and equalization TFE. These will be included in the fiscal results once the legislation receives Royal Assent.
- Subsidies and other transfers increased by \$1.1 billion or 9.0 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$2.5 billion or 6.2 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$1.0 billion or 11.0 per cent, while expenses for all other departments and agencies were up \$1.6 billion or 6.1 per cent.

Financial source of \$7.9 billion for April 2004 to January 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including

payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.5 billion in the April 2004 to January 2005 period, an improvement of \$5.2 billion from the requirement in the same period of 2003-04. The improvement is primarily attributable to the unusually large cash requirements in the April 2003 to January 2004 period related to transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million), and the Canada Foundation for Innovation (\$500 million). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$13.4 billion and a net requirement of \$5.5 billion from non-budgetary transactions, there was a financial source of \$7.9 billion in the first 10 months of 2004-05, compared to a requirement of \$2.5 billion in the same period of 2003-04.

Net financing activities down \$21.7 billion

The Government used this financial source of \$7.9 billion and a reduction in its cash balances of \$13.8 billion to reduce its market debt by \$21.7 billion by the end of January 2005, largely through a reduction of marketable bonds and foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of January stood at \$3.5 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary transactions				
Revenues	15,508	18,824	148,634	159,222
Expenses				
Program expenses	-11,736	-13,556	-110,704	-117,107
Public debt charges	-2,963	-2,857	-29,791	-28,714
Budgetary balance (deficit/surplus)	809	2,411	8,139	13,401
Non-budgetary transactions	2,110	-930	-10,686	-5,514
Financial source/requirement	2,919	1,481	-2,547	7,887
Net change in financing activities	-6,533	-2,027	-8,487	-21,657
Net change in cash balances	-3,614	-546	-11,034	-13,770
Cash balance at end of period			3,666	3,480

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	January			April to January		
	2004	2005	Change	2003-04	2004-05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,200	8,677	20.5	68,138	73,101	7.3
Corporate income tax	1,907	2,358	23.6	19,100	19,854	3.9
Other income tax revenue	469	607	29.4	2,493	2,899	16.3
Total income tax	9,576	11,642	21.6	89,731	95,854	6.8
Excise taxes and duties						
Goods and services tax	2,417	3,125	29.3	23,860	26,679	11.8
Customs import duties	204	192	-5.9	2,426	2,511	3.5
Sales and excise taxes	724	759	4.8	8,188	8,154	-0.4
Air Travellers Security Charge	23	28	21.7	335	325	-3.0
Total excise taxes and duties	3,368	4,104	21.9	34,809	37,669	8.2
Total tax revenues	12,944	15,746	21.6	124,540	133,523	7.2
Employment insurance premiums	1,410	1,891	34.1	13,962	13,604	-2.6
Other revenues	1,154	1,187	2.9	10,132	12,095	19.4
Total budgetary revenues	15,508	18,824	21.4	148,634	159,222	7.1

The Fiscal Monitor

Table 3

Budgetary expenses

	January		Change	April to January		Change
	2004	2005		2003-04	2004-05	
	(S millions)		(%)	(S millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,265	2,362	4.3	22,389	23,194	3.6
Employment insurance benefits	1,439	1,615	12.2	12,041	11,982	-0.5
Total	3,704	3,977	7.4	34,430	35,176	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			10,542	
Canada Social Transfer		652			6,521	
Health Reform Transfer	833	125	-85.0	833	1,250	50.1
Canada Health and Social Transfer	858			16,083		
Fiscal transfers	865	933	7.9	8,666	9,387	8.3
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,116	-2,203	4.1
Total	2,342	2,554	9.1	23,466	25,497	8.7
Subsidies and other transfers						
Agriculture	135	146	8.1	1,091	826	-24.3
Foreign Affairs	317	310	-2.2	1,621	2,010	24.0
Health	199	234	17.6	1,432	1,494	4.3
Human Resources Development	178	264	48.3	1,164	1,050	-9.8
Indian and Northern Development	332	347	4.5	3,519	3,618	2.8
Industry and Regional Development	108	100	-7.4	1,209	1,490	23.2
Other	454	593	30.6	2,586	3,270	26.5
Total	1,723	1,994	15.7	12,622	13,758	9.0
Total transfer payments	7,769	8,525	9.7	70,518	74,431	5.5
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	89	108	21.3	970	980	1.0
Canada Mortgage and Housing Corporation	158	170	7.6	1,699	1,685	-0.8
Other	121	200	65.3	1,854	1,723	-7.1
Total	368	478	29.9	4,523	4,388	-3.0
Defence	961	1,106	15.1	9,371	10,405	11.0
All other departments and agencies	2,638	3,447	30.7	26,292	27,883	6.1
Total other program expenses	3,967	5,031	26.8	40,186	42,676	6.2
Total program expenses	11,736	13,556	15.5	110,704	117,107	5.8
Public debt charges	2,963	2,857	-3.6	29,791	28,714	-3.6
Total budgetary expenses	14,699	16,413	11.7	140,495	145,821	3.8

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	809	2,411	8,139	13,401
Non-budgetary transactions				
Capital investing activities	-104	-86	-1,529	-1,088
Other investing activities	-471	-614	-1,917	-2,485
Pension and other accounts	287	-619	710	-2,464
Other activities				
Accounts payable, receivables, accruals and allowances	2,325	1,015	-12,154	-5,138
Foreign exchange activities	-166	-868	1,799	3,091
Amortization of tangible capital assets	239	242	2,405	2,570
Total other activities	2,398	389	-7,950	523
Total non-budgetary transactions	2,110	-930	-10,686	-5,514
Net financial source/requirement	2,919	1,481	-2,547	7,887

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	2,919	1,481	-2,547	7,887
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-60	387	-12,213	-15,523
Treasury bills	-6,600	-2,450	5,600	1,200
Canada Savings Bonds	32	-96	-1,534	-1,964
Other			91	-28
Total	-6,628	-2,159	-8,056	-16,315
Foreign currency borrowings	124	69	-383	-5,473
Total	-6,504	-2,090	-8,439	-21,788
Obligations related to capital leases	-29	63	-48	131
Net change in financing activities	-6,533	-2,027	-8,487	-21,657
Change in cash balance	-3,614	-546	-11,034	-13,770

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2004	January 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	74,329	-5,635
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	263,257	-15,523
Treasury bills	113,378	114,578	1,200
Canada Savings Bonds	21,330	19,366	-1,964
Other	3,427	3,399	-28
Subtotal	416,915	400,600	-16,315
Payable in foreign currencies	20,542	15,069	-5,473
Obligations related to capital leases	2,774	2,905	131
Total unmaturred debt	440,231	418,574	-21,657
Pension and other accounts			
Public sector pensions	127,560	129,173	1,613
Other employee and veteran future benefits	39,367	39,618	251
Canada Pension Plan (net of securities)	7,483	3,627	-3,856
Other pension and other accounts	6,488	6,017	-471
Total pension and other accounts	180,898	178,434	-2,464
Total interest-bearing debt	621,129	597,008	-24,121
Total liabilities	701,093	671,336	-29,756
Financial assets			
Cash and accounts receivable	70,921	56,654	-14,267
Foreign exchange accounts	44,312	41,221	-3,091
Loans, investments and advances (net of allowances)	29,548	32,033	2,485
Total financial assets	144,781	129,908	-14,873
Net debt	556,311	541,428	-14,883
Non-financial assets	54,817	53,335	-1,482
Federal debt (accumulated deficit)	501,494	488,093	-13,401

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

March 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2005

There was a budgetary surplus of \$5.8 billion in February 2005, up from the surplus of \$3.8 billion recorded in February 2004. This increase is due in large part to stronger corporate income tax receipts, which rose \$1.3 billion or 28.9 per cent from the same month last year. The gain in corporate receipts reflects the timing of year-end corporate settlement payments, some of which last year were received one month later, in March 2004. The surplus was also supported by higher net goods and services tax (GST) receipts, which rose \$0.6 billion or 29.3 per cent, a growth rate that continues to be far in excess of the growth of taxable consumption and reflects ongoing weakness in GST refunds. Growth of GST refunds is expected to pick up in the coming months. Program expenses were \$0.2 billion lower in February 2005, reflecting lower transfer payments. Public debt charges were also \$0.2 billion lower in February.

April 2004 to February 2005

For the first 11 months of the 2004-05 fiscal year (April to February), the budgetary surplus is estimated at \$19.2 billion, up \$7.2 billion from the surplus reported in the same period last year.

Taking into account a number of factors, the results to date are broadly consistent with the expected outcome of a \$3-billion surplus in 2004-05 as set out in the 2005 budget.

- The monthly results to date do not reflect the significant fiscal impacts of a number of initiatives that have already been announced. The legislative authorities to put the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF) into effect were received in March 2005 and the fiscal cost of these measures (\$7.2 billion) will be recorded in March. The March 2005 results will also incorporate the costs associated with the recently announced agricultural assistance package (\$1 billion). The final 2004-05 year-end results will be further affected by the impact of the new initiatives proposed in the 2005 budget (\$3.9 billion). **In total some \$12 billion in new already announced expenses will be incorporated in March and the supplementary period.**
- The February results reflect extraordinarily high growth in corporate income tax and net GST receipts. As indicated above, both corporate income tax and GST receipts were up 29 per cent over last year, while their underlying tax bases (corporate profits and retail trade) were up 17.7 per cent and 5.5 per cent, respectively. **The growth of corporate receipts is expected to moderate in March to be more in line with the growth of profits. It is also expected that in March 2005 and in the year-end supplementary period, there will be a reversal of some of the recent increases in GST revenues, bringing them more in line with the observed growth in their applicable tax base.**
- As well, because of the seasonal pattern of receipts and expenses, deficits are traditionally recorded in both March and the end-of-year supplementary period.

February 2005: budgetary results

The February 2005 budgetary surplus was estimated at \$5.8 billion, up from the surplus of \$3.8 billion in February 2004.

Budgetary revenues totalled \$19.8 billion in the month, up \$1.5 billion or 8.3 per cent from February 2004. This increase is due to significantly higher corporate income tax and GST revenues, which more than offset lower personal income tax revenues.



Department of Finance
Canada

Ministère des Finances
Canada

Canada

The Fiscal Monitor

- Personal income tax revenues fell \$0.7 billion or 8.1 per cent on a year-over-year basis. As discussed in the January *Fiscal Monitor*, this decline reflects the fact that there was an extra processing cycle in January 2005, which boosted receipts in that month.
- Corporate income tax revenues were up \$1.3 billion or 28.9 per cent on a year-over-year basis. This gain in corporate receipts reflects year-end corporate settlement payments, some of which last year were received in both February and March.
- Excise taxes and duties were up \$0.6 billion in February 2005 compared to February 2004. This increase is almost entirely due to higher GST receipts, which were up \$0.6 billion or 29.3 per cent. Although the year-over-year gain in gross GST receipts was roughly in line with the growth in the applicable tax base, the growth in refunds, which should match the growth in gross receipts over time, was considerably weaker. Customs import duties rose \$38 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$21 million.
- Employment insurance (EI) premiums were up 3.1 per cent, reflecting increases in employment and wages and salaries, which more than offset the decline in premium rates.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 12.5 per cent. This revenue component is volatile on a monthly basis.

Program expenses in February 2005 totalled \$11.3 billion, down \$0.2 billion or 2.0 per cent from February 2004 due to lower transfer payments.

Transfer payments were down \$0.8 billion or 10.6 per cent in February 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 3.6 per cent lower on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down 14.1 per cent due to a decrease in regular benefits. This reflects the inclusion of an additional payment cycle in January 2005, which boosted expenses in that month and subsequently lowered them in February.

- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were down 3.8 per cent.
- Subsidies and other transfers were down 37.6 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

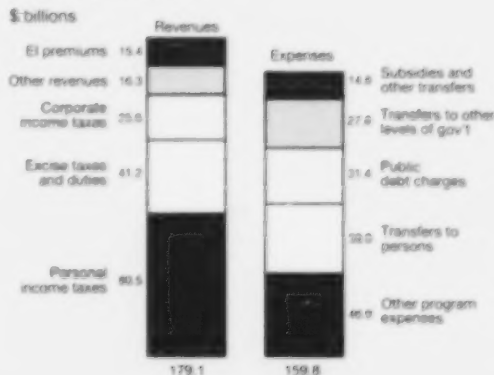
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 16.6 per cent due to higher expenses related to other departments and agencies. Defence expenses fell slightly by \$10 million or 1.0 per cent in February, while expenses for all other departments and agencies rose by \$0.6 billion or 26.9 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of previous budget measures.

Public debt charges were 7.6 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

April 2004 to February 2005: budgetary results

Through the first 11 months of 2004-05, there was a budgetary surplus of \$19.2 billion, up \$7.2 billion from the \$12-billion surplus reported in the same period of 2003-04.

Revenues and expenses
(April 2004-February 2005)



Budgetary revenues increased \$12.1 billion, or 7.3 per cent, to total \$179.1 billion. This increase reflects strong gains in corporate income tax and GST revenues, as well as the \$2.6-billion net gain from the sale of the Government's remaining shares in Petro-Canada.

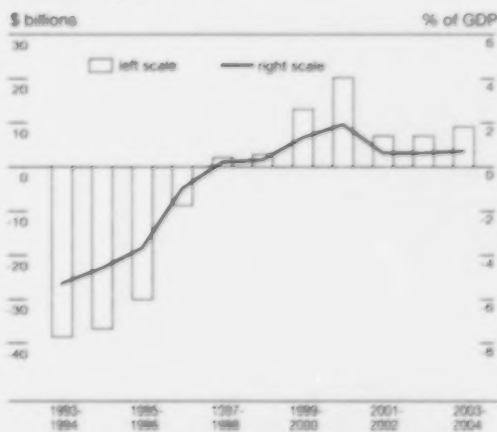
- Personal income tax revenues increased \$4.3 billion or 5.7 per cent through February. This year-over-year increase is consistent with higher employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.1 billion or 8.7 per cent. This year-over-year gain was dampened by the inclusion in the 2003-04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 22 per cent year to date, somewhat higher than the estimated growth in corporate profits in 2004.
- Excise taxes and duties increased \$3.5 billion or 9.1 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.4 billion or 13.1 per cent higher than the previous year. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 2.6 per cent year to date) compared to gross receipts (up 7.6 per cent). On balance, the growth in refunds should correspond closely to the growth in gross

receipts. It is expected that in March 2005 and the year-end supplementary period, refunds will pick up, bringing net GST revenues more in line with the growth in the applicable tax base. Customs import duties were up \$0.1 billion, while sales and excise taxes and the Air Travellers Security Charge were down a combined \$0.1 billion.

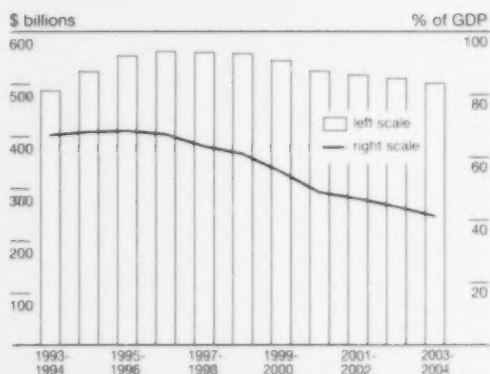
- EI premiums declined \$0.3 billion or 1.9 per cent, reflecting the reduction in premium rates (the employee rate declined from \$2.10 in 2003 to \$1.98 in 2004 and to \$1.95 in 2005 per \$100 of insurable earnings), which more than offset the impact of increases in employment and earnings.
- Other revenues increased \$2.1 billion or 18.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. In the absence of this transaction, other revenues (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) declined on a year-over-year basis, primarily due to lower gains in the Exchange Fund Account.

On a year-over-year basis, program expenses in the April 2004 to February 2005 period were up 5.0 per cent to \$128.4 billion. However, program expenses will increase significantly in March 2005, when the fiscal impacts of the federal-provincial-territorial agreements on health care and equalization/TFF and the recently

Budgetary balance



Federal debt (accumulated deficit)



The Fiscal Monitor

announced agricultural assistance package are included. In addition, the final results will incorporate the fiscal impact of measures proposed in the 2005 budget, once the applicable legislation receives Royal Assent. Public debt charges were \$1.3 billion lower than in the first 11 months of 2003–04, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.1 billion, or 3.9 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.6 per cent. Elderly benefits were up 3.6 per cent while EI benefits were down 2.1 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.
- Transfers to other levels of government were up \$1.9 billion, or 7.5 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 5.1 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 federal-provincial-territorial agreements on health care and equalization/TFF. These will be included in the March fiscal results.
- Subsidies and other transfers increased by \$0.5 billion, or 3.7 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.1 billion, or 7.1 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$1.0 billion or 9.9 per cent, while expenses for all other departments and agencies were up \$2.2 billion or 7.8 per cent.

Financial source of \$8.5 billion for April 2004 to February 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or

incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.8 billion in the April 2004 to February 2005 period, up \$1.1 billion from a requirement of \$9.7 billion in the same period of 2003–04. The higher requirement primarily reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$19.2 billion and a net requirement of \$10.8 billion from non-budgetary transactions, there was a financial source of \$8.5 billion in the first 11 months of 2004–05, compared to a source of \$2.3 billion in the same period of 2003–04.

Net financing activities down \$18.4 billion

The Government used this financial source of \$8.5 billion and a reduction in its cash balances of \$10.0 billion to reduce its market debt by \$18.4 billion by the end of February 2005, largely by reducing its holdings of marketable bonds and foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at \$7.3 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	February		April to February	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary transactions				
Revenues	18,315	19,842	166,952	179,066
Expenses				
Program expenses	-11,534	-11,300	-122,238	-128,408
Public debt charges	-2,946	-2,722	-32,737	-31,436
Budgetary balance (deficit/surplus)	3,835	5,820	11,977	19,222
Non-budgetary transactions	979	-5,249	-9,707	-10,760
Financial source/requirement	4,814	571	2,270	8,462
Net change in financing activities	-2,300	3,221	-10,787	-18,437
Net change in cash balances	2,514	3,792	-8,517	-9,975
Cash balance at end of period			6,181	7,273

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	February			April to February		
	2004	2005	Change	2003-04	2004-05	Change
	(\$ millions)			(\$ millions)		
	Change (%)			Change (%)		
Tax revenues						
Income taxes						
Personal income tax	8,023	7,372	-8.1	76,162	80,474	5.7
Corporate income tax	4,485	5,780	28.9	23,585	25,635	8.7
Other income tax revenue	224	352	57.1	2,717	3,251	19.7
Total income tax	12,732	13,504	6.1	102,464	109,360	6.7
Excise taxes and duties						
Goods and services tax	1,966	2,542	29.3	25,826	29,221	13.1
Customs import duties	237	275	16.0	2,663	2,785	4.6
Sales and excise taxes	741	723	-2.4	8,927	8,878	-0.5
Air Travellers Security Charge	34	31	-8.8	369	356	-3.5
Total excise taxes and duties	2,978	3,571	19.9	37,785	41,240	9.1
Total tax revenues	15,710	17,075	8.7	140,249	150,600	7.4
Employment insurance premiums	1,743	1,797	3.1	15,705	15,401	-1.9
Other revenues	862	970	12.5	10,998	13,065	18.8
Total budgetary revenues	18,315	19,842	8.3	166,952	179,066	7.3

The Fiscal Monitor

Table 3

Budgetary expenses

	February		Change	April to February		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,274	2,367	4.1	24,662	25,561	3.6
Employment insurance benefits	1,656	1,423	-14.1	13,698	13,405	-2.1
Total	3,930	3,790	-3.6	38,360	38,966	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			11,596	
Canada Social Transfer		651			7,173	
Health Reform Transfer	83	125	50.6	917	1,375	49.9
Canada Health and Social Transfer	1,608			17,692		
Fiscal transfers	865	634	-26.7	9,530	10,020	5.1
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,330	-2,413	3.6
Total	2,342	2,254	-3.8	25,809	27,751	7.5
Subsidies and other transfers						
Agriculture	32	0	-100.0	1,123	826	-26.4
Foreign Affairs	224	200	-10.7	1,845	2,210	19.8
Health	119	124	4.2	1,551	1,618	4.3
Human Resources Development	280	104	-62.9	1,445	1,154	-20.1
Indian and Northern Development	267	285	6.7	3,786	3,903	3.1
Industry and Regional Development	312	-16	-105.1	1,521	1,474	-3.1
Other	385	313	-18.7	2,974	3,583	20.5
Total	1,619	1,010	-37.6	14,245	14,768	3.7
Total transfer payments	7,891	7,054	-10.6	78,414	81,485	3.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	84	65	-22.6	1,055	1,045	-0.9
Canada Mortgage and Housing Corporation	161	170	5.6	1,860	1,855	-0.3
Other	106	107	0.9	1,959	1,830	-6.6
Total	351	342	-2.6	4,874	4,730	-3.0
Defence	984	974	-1.0	10,356	11,379	9.9
All other departments and agencies	2,308	2,930	26.9	28,594	30,814	7.8
Total other program expenses	3,643	4,246	16.6	43,824	46,923	7.1
Total program expenses	11,534	11,300	-2.0	122,238	128,408	5.0
Public debt charges	2,946	2,722	-7.6	32,737	31,436	-4.0
Total budgetary expenses	14,480	14,022	-3.2	154,975	159,844	3.1

Table 4

Budgetary balance and financial source/requirement

	February		April to February	
	2004	2005	2003-04	2004-05
(\$ millions)				
Budgetary balance (deficit/surplus)	3,835	5,820	11,977	19,222
Non-budgetary transactions				
Capital investing activities	-133	-313	-1,663	-1,402
Other investing activities	-234	-192	-2,152	-2,677
Pension and other accounts	554	-985	1,265	-3,448
Other activities				
Accounts payable, receivables, accruals and allowances	-153	-2,839	-12,306	-7,974
Foreign exchange activities	627	-1,166	2,426	1,925
Amortization of tangible capital assets	318	246	2,723	2,816
Total other activities	792	-3,759	-7,157	-3,233
Total non-budgetary transactions	979	-5,249	-9,707	-10,760
Net financial source/requirement	4,814	571	2,270	8,462

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2004	2005	2003-04	2004-05
(\$ millions)				
Net financial source/requirement	4,814	571	2,270	8,462
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	984	1,887	-11,229	-13,636
Treasury bills	-3,500	1,100	2,100	2,300
Canada Savings Bonds	-131	-196	-1,665	-2,161
Other		-1	91	-29
Total	-2,647	2,790	-10,703	-13,526
Foreign currency borrowings	350	397	-33	-5,076
Total	-2,297	3,187	-10,736	-18,602
Obligations related to capital leases	-3	34	-51	165
Net change in financing activities	-2,300	3,221	-10,787	-18,437
Change in cash balance	2,514	3,792	-8,517	-9,975

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2004	February 28, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	77,559	-2,405
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	265,144	-13,636
Treasury bills	113,378	115,678	2,300
Canada Savings Bonds	21,330	19,169	-2,161
Other	3,427	3,398	-29
Subtotal	416,915	403,389	-13,526
Payable in foreign currencies	20,542	15,466	-5,076
Obligations related to capital leases	2,774	2,939	165
Total unmatured debt	440,231	421,794	-18,437
Pension and other accounts			
Public sector pensions	127,560	129,307	1,747
Other employee and veteran future benefits	39,367	39,650	283
Canada Pension Plan (net of securities)	7,483	2,658	-4,825
Other pension and other accounts	6,488	5,835	-653
Total pension and other accounts	180,898	177,450	-3,448
Total interest-bearing debt	621,129	599,244	-21,885
Total liabilities	701,093	676,803	-24,290
Financial assets			
Cash and accounts receivable	70,921	66,515	-4,406
Foreign exchange accounts	44,312	42,387	-1,925
Loans, investments and advances (net of allowances)	29,548	32,225	2,677
Total financial assets	144,781	141,127	-3,654
Net debt	556,311	535,675	-20,636
Non-financial assets	54,817	53,403	-1,414
Federal debt (accumulated deficit)	501,494	482,272	-19,222

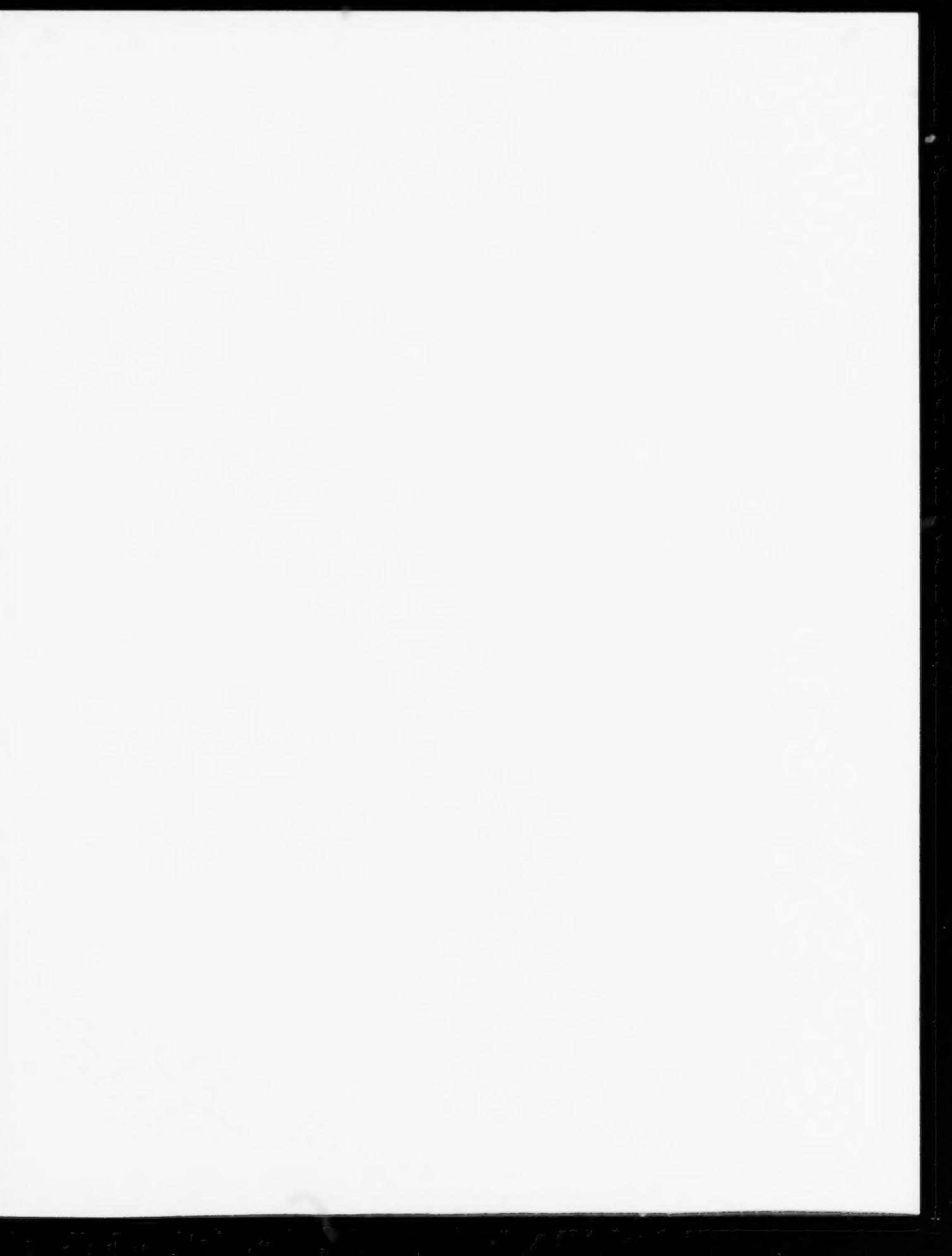
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

April 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

March 2005

There was a budgetary deficit of \$9.5 billion in March 2005, a deterioration of \$6.3 billion from the deficit of \$3.2 billion recorded in March 2004. The deterioration is primarily attributable to the \$7.2 billion in transfers related to the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF). The legislative authorities for these transfers received Royal Assent in March.

April 2004 to March 2005

The budgetary surplus is estimated at \$9.8 billion for the April 2004 to March 2005 period, up \$1.0 billion from the surplus reported in the same period last year.

Program expenses were up \$13.7 billion or 9.9 per cent in the April 2004 to March 2005 period, primarily due to higher transfer payments, reflecting the effects of the federal-provincial-territorial agreements on health care and equalization/TFF, which were expensed in March 2005. Public debt charges were down \$1.5 billion or 4.2 per cent, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

On a year-over-year basis, budgetary revenues were up \$13.2 billion or 7.2 per cent in the April 2004 to March 2005 period compared to the same period in 2003-04. The higher revenues primarily reflect strong corporate income tax receipts. The underlying increase in corporate income tax revenues is nearly double the current estimated growth in corporate profits for 2004. Corporate income tax receipts over the April 2004 to March 2005 period are about \$2 billion higher than anticipated at the time of the budget.

These are not the final results for the year as a whole. The April 2004 to March 2005 monthly results do not reflect the impact of the new initiatives proposed in the 2005 budget, which total \$2.5 billion. Nor do the results reflect the regular end-of-year accounting adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2004-05, and final tax accrual adjustments. As a result, it is too early to determine whether the budgetary surplus will be greater than the \$3 billion projected for 2004-05 in the 2005 budget.

March 2005: budgetary results

There was a budgetary deficit of \$9.5 billion in March 2005, up from the deficit of \$3.2 billion recorded in March 2004.

Budgetary revenues totalled \$17.8 billion, an increase of \$1.1 billion or 6.5 per cent from March 2004. This gain is due to higher personal and corporate income tax receipts, which were somewhat offset by lower GST and other revenues.

- Personal income tax revenues rose \$1.2 billion or 16.9 per cent on a year-over-year basis due to timing factors in the processing of source deductions.

- Corporate income tax revenues were up \$0.8 billion or 24.1 per cent on a year-over-year basis. This gain is attributable to final year-end corporate settlement payments from the manufacturing sector in March 2005, which were up \$1 billion from last year. Monthly instalment payments from the manufacturing sector were down through the first 11 months of 2004-05 and, as a result, the settlement payments in March alone accounted for the entire increase in receipts from this sector for 2004-05 as a whole.



Department of Finance
Canada

Ministère des Finances
Canada

Canada

The Fiscal Monitor

- Excise taxes and duties in March 2005 were down \$0.3 billion compared to March 2004, almost entirely due to lower GST receipts. As discussed in previous editions of *The Fiscal Monitor*, declines in net GST receipts have been expected, as net receipts in the latter half of the year have grown very strongly compared to taxable income as a result of weak GST refund growth. Customs import duties rose \$20 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$15 million.
- Employment insurance (EI) premiums were up 3.2 per cent, reflecting increases in employment and wages and salaries, which more than offset the decline in premium rates.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, fell 72.4 per cent. This decline is largely due to losses on the year-end revaluation of the Government's holdings of U.S.-dollar-denominated assets resulting from the appreciation of the Canadian dollar.

Program expenses in March 2005 totalled \$24.5 billion, up \$7.6 billion or 44.6 per cent from March 2004. The increase is mainly due to higher transfer payments.

Transfer payments were up \$7.5 billion or 63.5 per cent in March 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 1.0 per cent higher on a year-over-year basis. Elderly benefits increased by \$88 million due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down \$50 million due to a decrease in regular benefits.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$6.3 billion. This increase is due to liabilities for the new initiatives under the 2004 First Ministers' agreements on health care and equalization/TFE.
- Subsidies and other transfers were up \$1.2 billion, reflecting increases in agricultural assistance and foreign aid. This component is volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up slightly by 1.4 per cent, as increases in transfers to Crown corporations and expenses related to other departments and agencies were largely offset by a decrease in defence expenses. Defence expenses fell by \$336 million or 17.5 per cent, while expenses for all other departments and agencies rose by \$325 million or 11.4 per cent and transfers to Crown corporations rose by \$82 million or 21.0 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from previous budgets.

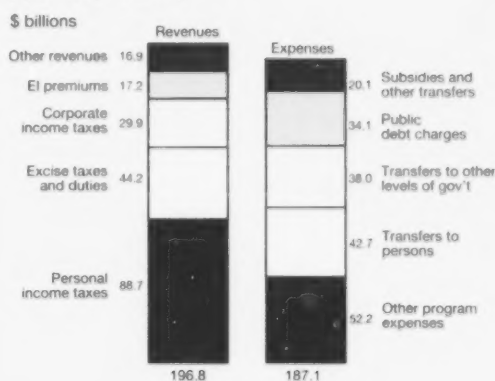
Public debt charges were 7.2 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

April 2004 to March 2005: budgetary results

In the April 2004 to March 2005 period, there was a budgetary surplus of \$9.8 billion, up \$1.0 billion from the \$8.8-billion surplus reported in the same period of 2003-04.

Budgetary revenues increased \$13.2 billion or 7.2 per cent to total \$196.8 billion. This increase reflects strong gains in corporate income tax and GST revenues, as well as the \$2.6-billion net gain from the sale of the Government's remaining shares in Petro-Canada.

Revenues and expenses (April 2004-March 2005)



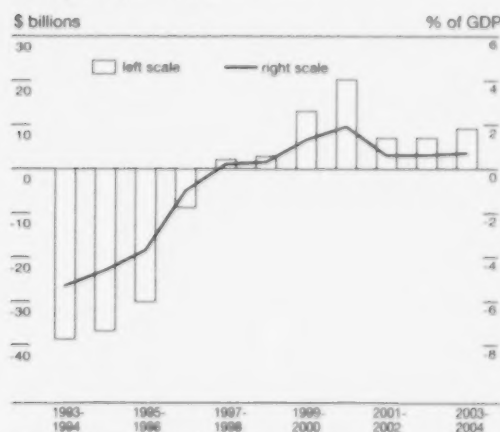
- Personal income tax revenues increased by \$5.5 billion or 6.6 per cent, reflecting year-over-year gains in employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.9 billion or 10.6 per cent. This gain was dampened by the inclusion in the 2003-04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003, as well as the 2-percentage-point decline in the general corporate income tax rate in 2004. Absent these two factors, underlying corporate receipts are up about 29 per cent year to date, stronger than the estimated growth in corporate profits of 17.7 per cent in 2004. The 2005 budget projected an underlying increase in net corporate income tax receipts of over 20 per cent, somewhat higher than the 17.7 per cent growth in corporate profits.
- Excise taxes and duties increased by \$3.1 billion or 7.6 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.1 billion or 10.9 per cent higher than last year. The strong growth in GST receipts in the April-to-March period reflects ongoing weakness in GST refunds (up 3.0 per cent) relative to gross receipts (up 6.8 per cent). On balance, the growth in refunds should correspond closely to the growth in gross receipts. Net receipts declined in March 2005

to bring net GST revenues more in line with the growth in the applicable tax base. It is expected that refunds will continue to pick up relative to gross receipts through the year-end accrual adjustments. Customs import duties were up \$0.1 billion, while there were declines in both sales and excise taxes and the Air Travellers Security Charge, which together declined \$0.1 billion.

- EI premiums declined \$0.3 billion or 1.4 per cent, reflecting the reduction in premium rates (the employee rate declined from \$2.10 in 2003 to \$1.98 in 2004 and to \$1.95 in 2005 per \$100 of insurable earnings), which more than offset the impact of increases in employment and earnings.
- Other revenues increased \$1.3 billion or 10.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. The other components in this category (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) were lower on a year-over-year basis, reflecting the impact of the appreciation of the Canadian dollar and the decline in interest rates.

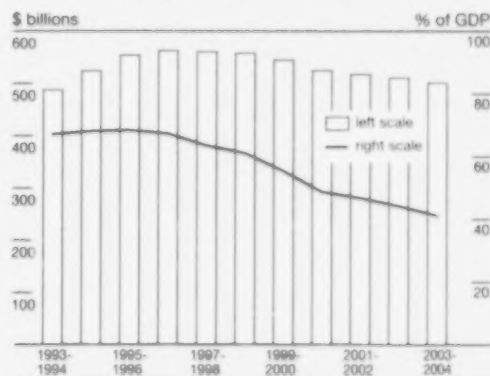
On a year-over-year basis, program expenses in the April 2004 to March 2005 period were up 9.9 per cent to \$153.0 billion, mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/TFF. Public debt charges were \$1.5 billion lower than in the same period of 2003-04, reflecting the impact

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$10.6 billion or 11.7 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.5 per cent. Elderly benefits were up 3.7 per cent while EI benefits were down 2.3 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.
- Transfers to other levels of government were up \$8.2 billion or 27.6 per cent, reflecting higher transfers in support of health and other social programs, resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$1.7 billion or 9.2 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.2 billion or 6.5 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$0.7 billion or 5.6 per cent, while expenses for all other departments and agencies were up \$2.5 billion or 8.1 per cent.

Financial source of \$4.7 billion for April 2004 to March 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary

balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April 2004 to March 2005 period, up \$1.7 billion from a requirement \$3.4 billion in 2003-04. The higher requirement primarily reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$9.8 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source of \$4.7 billion in the April 2004 to March 2005 period, compared to a source of \$5.4 billion in the same period last year.

Net financing activities down \$4.8 billion

The Government used this financial source of \$4.7 billion and a reduction in its cash balances of \$0.1 billion to reduce its market debt by \$4.8 billion, largely by reducing its holdings of foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of March stood at \$17.1 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	March		April to March	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary transactions				
Revenues	16,693	17,777	183,645	196,842
Expenses				
Program expenses	-16,976	-24,545	-139,214	-152,954
Public debt charges	-2,896	-2,687	-35,633	-34,122
Budgetary balance (deficit/surplus)	-3,179	-9,455	8,798	9,766
Non-budgetary transactions	6,269	5,657	-3,440	-5,105
Financial source/requirement	3,090	-3,798	5,358	4,661
Net change in financing activities	7,978	13,647	-2,807	-4,790
Net change in cash balances	11,068	9,849	2,551	-129
Cash balance at end of period			17,250	17,122

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	March			April to March		
	2004	2005	Change	2003-04	2004-05	Change
	(\$ millions)			(\$ millions)		
	Change (%)			Change (%)		
Tax revenues						
Income taxes						
Personal income tax	7,026	8,213	16.9	83,187	88,686	6.6
Corporate income tax	3,415	4,238	24.1	27,000	29,872	10.6
Other income tax revenue	195	316	62.1	2,912	3,567	22.5
Total income tax	10,636	12,767	20.0	113,099	122,125	8.0
Excise taxes and duties						
Goods and services tax	2,278	1,939	-14.9	28,104	31,161	10.9
Customs import duties	229	249	8.7	2,892	3,034	4.9
Sales and excise taxes	731	728	-0.4	9,660	9,606	-0.6
Air Travellers Security Charge	45	33	-26.7	414	389	-6.0
Total excise taxes and duties	3,283	2,949	-10.2	41,070	44,190	7.6
Total tax revenues	13,919	15,716	12.9	154,169	166,315	7.9
Employment insurance premiums	1,713	1,768	3.2	17,419	17,169	-1.4
Other revenues	1,061	293	-72.4	12,057	13,358	10.8
Total budgetary revenues	16,693	17,777	6.5	183,645	196,842	7.2

The Fiscal Monitor

Table 3

Budgetary expenses

	March		Change	April to March		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,277	2,365	3.9	26,939	27,926	3.7
Employment insurance benefits	1,378	1,328	-3.6	15,076	14,734	-2.3
Total	3,655	3,693	1.0	42,015	42,660	1.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		6,804			18,400	
Canada Social Transfer		727			7,900	
Health Reform Transfer	83	125	50.6	1,000	1,500	50.0
Canada Health and Social Transfer	3,608	31		21,300	31	
Fiscal transfers	550	2,882	424.0	10,081	12,902	28.0
Alternative Payments for Standing Programs	-285	-333	16.8	-2,615	-2,746	5.0
Total	3,956	10,236	158.7	29,766	37,987	27.6
Subsidies and other transfers						
Agriculture	1,235	1,748	41.5	2,358	2,574	9.2
Foreign Affairs	674	1,182	75.4	2,519	3,391	34.6
Health	508	246	-51.6	2,059	1,864	-9.5
Human Resources Development	169	49	-71.0	1,614	1,203	-25.5
Indian and Northern Development	481	452	-6.0	4,268	4,354	2.0
Industry and Regional Development	288	207	-28.1	1,809	1,681	-7.1
Other	846	1,497	77.0	3,818	5,080	33.1
Total	4,201	5,381	28.1	18,445	20,147	9.2
Total transfer payments	11,812	19,310	63.5	90,226	100,794	11.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	20	0	-100.0	1,074	1,045	-2.7
Canada Mortgage and Housing Corporation	205	190	-7.3	2,065	2,045	-1.0
Other	166	283	70.5	2,125	2,113	-0.6
Total	391	473	21.0	5,264	5,203	-1.2
Defence	1,919	1,583	-17.5	12,274	12,962	5.6
All other departments and agencies	2,854	3,179	11.4	31,450	33,995	8.1
Total other program expenses	5,164	5,235	1.4	48,988	52,160	6.5
Total program expenses	16,976	24,545	44.6	139,214	152,954	9.9
Public debt charges	2,896	2,687	-7.2	35,633	34,122	-4.2
Total budgetary expenses	19,872	27,232	37.0	174,847	187,076	7.0

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	March		April to March	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	-3,179	-9,455	8,798	9,766
Non-budgetary transactions				
Capital investing activities	-137	-861	-1,800	-2,263
Other investing activities	-4	-1,033	-2,483	-3,048
Pension and other accounts	970	228	2,224	-3,228
Other activities				
Accounts payable, receivables, accruals and allowances	3,352	5,305	-8,618	-3,324
Foreign exchange activities	1,793	1,517	4,219	3,441
Amortization of tangible capital assets	295	501	3,018	3,317
Total other activities	5,440	7,323	-1,381	3,434
Total non-budgetary transactions	6,269	5,657	-3,440	-5,105
Net financial source/requirement	3,090	-3,798	5,358	4,661

Table 5

Financial source/requirement and net financing activities

	March		April to March	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	3,090	-3,798	5,358	4,661
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,921	1,348	-9,307	-12,288
Treasury bills	6,700	11,500	8,800	13,800
Canada Savings Bonds	-15	-83	-1,680	-2,244
Other	-34	-6	57	-35
Total	8,572	12,759	-2,130	-767
Foreign currency borrowings	-564	822	-597	-4,254
Total	8,008	13,581	-2,727	-5,021
Obligations related to capital leases	-30	66	-80	231
Net change in financing activities	7,978	13,647	-2,807	-4,790
Change in cash balance	11,068	9,849	2,551	-129

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2004	March 31, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	79,964	75,909	-4,055
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	266,492	-12,288
Treasury bills	113,378	127,178	13,800
Canada Savings Bonds	21,330	19,086	-2,244
Other	3,427	3,392	-35
Subtotal	416,915	416,148	-767
Payable in foreign currencies	20,542	16,288	-4,254
Obligations related to capital leases	2,774	3,005	231
Total unmaturing debt	440,231	435,441	-4,790
Pension and other accounts			
Public sector pensions	127,560	129,430	1,870
Other employee and veteran future benefits	39,367	39,675	308
Canada Pension Plan (net of securities)	7,483	2,763	-4,720
Other pension and other accounts	6,488	5,802	-686
Total pension and other accounts	180,898	177,670	-3,228
Total interest-bearing debt	621,129	613,111	-8,018
Total liabilities	701,093	689,020	-12,073
Financial assets			
Cash and accounts receivable	70,922	70,062	-860
Foreign exchange accounts	44,312	40,871	-3,441
Loans, investments and advances (net of allowances)	29,548	32,596	3,048
Total financial assets	144,782	143,529	-1,253
Net debt	556,311	545,491	-10,820
Non-financial assets	54,817	53,763	-1,054
Federal debt (accumulated deficit)	501,494	491,728	-9,766

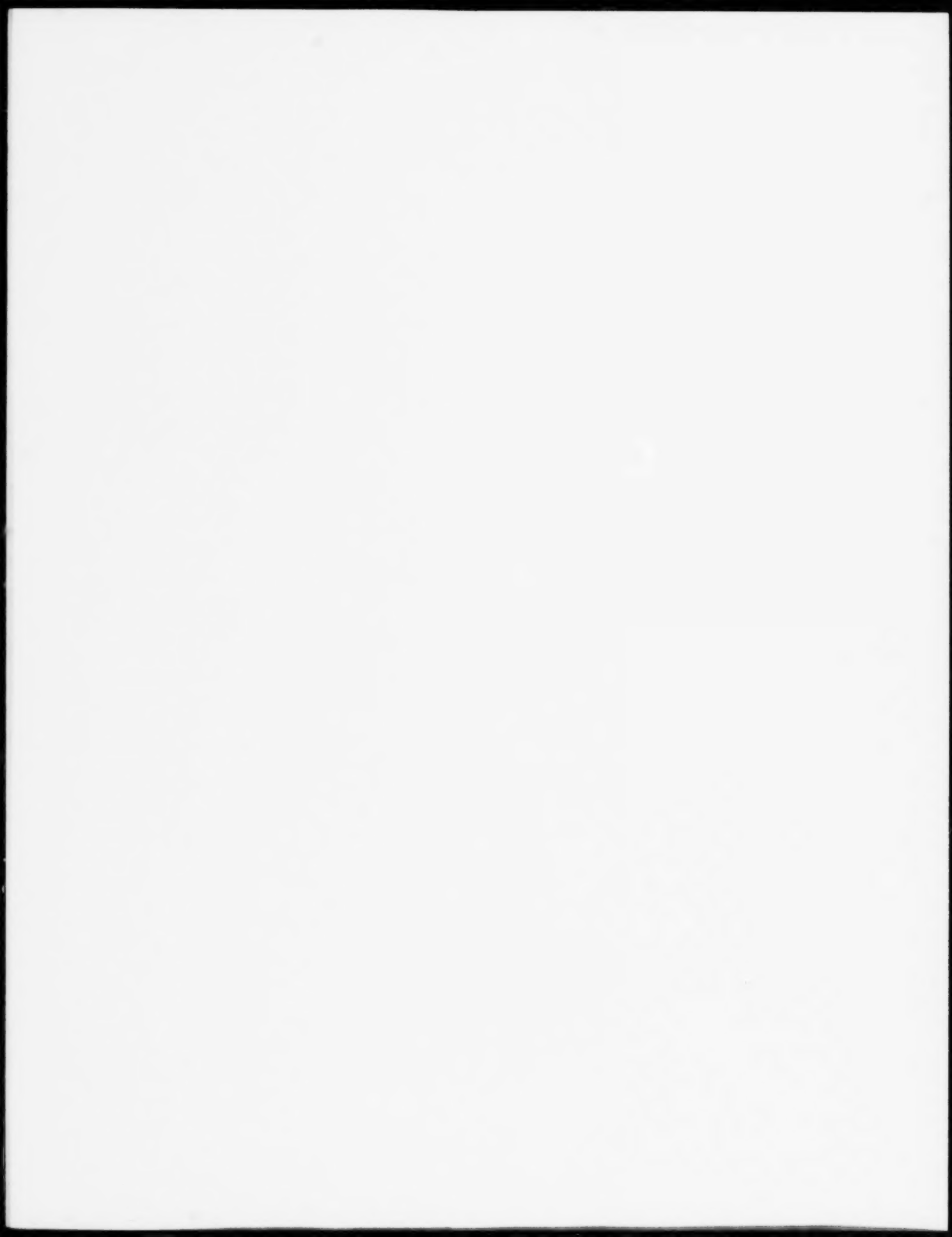
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

May 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

April 2005: budgetary surplus of \$2.2 billion

There was a budgetary surplus of \$2.2 billion in April 2005, up from a surplus of \$0.8 billion recorded in April 2004. The year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, up \$2.3 billion, or 14.9 per cent, primarily reflecting strong advances in personal and corporate income tax revenues. Public debt charges were marginally lower while program expenses increased by \$1.0 billion, or 8.6 per cent, primarily reflecting the impact of previous budget measures.

May 2005: budgetary surplus of \$0.9 billion

There was a budgetary surplus of \$0.9 billion in May 2005, down from the \$1.0-billion surplus recorded in May 2004. On a year-over-year basis, budgetary revenues were up \$1.1 billion, while program expenses were up \$1.3 billion. Public debt charges declined \$0.1 billion to \$2.9 billion.

April and May 2005: budgetary surplus of \$3.1 billion

For the first two months of the 2005-06 fiscal year (April and May), the budgetary surplus is estimated at \$3.1 billion, up \$1.3 billion from the surplus of \$1.8 billion recorded in the same period of 2004-05. Budgetary revenues were up \$3.4 billion, or 11.2 per cent, largely due to the strength of personal and corporate income tax receipts. Program expenses were up \$2.3 billion, or 10.0 per cent, primarily reflecting the impact of previous budget measures affecting transfers to the provinces and territories. Public debt charges were down \$0.2 billion to \$5.7 billion.

April and May 2005 budgetary results

Through the first two months of the 2005-06 fiscal year, there was a budgetary surplus of \$3.1 billion, up \$1.3 billion from the \$1.8-billion surplus reported during the same period of 2004-05.

On a year-over-year basis, budgetary revenues increased \$3.4 billion, or 11.2 per cent, to total \$33.8 billion. This increase primarily reflects strong gains in personal and corporate income tax revenues.

- Personal income tax revenues increased \$1.1 billion, or 7.7 per cent, through April and May, reflecting strong source deductions, consistent with the increase in employment and wages and salaries over this period.
- Corporate income tax revenues were up \$1.3 billion. The monthly results through May in large part reflect remittance procedures, under which corporations are required to remit monthly instalments through the year based on their previous year's actual tax liabilities or their current year's estimated liabilities. Any underpayment of a corporation's current-year tax liability is made within 60 days of the close of its taxation year by means of a year-end settlement payment. Given that settlement payments were up during the last three months of 2004-05 (the year-end settlement period for those corporations with a December 31, 2004, taxation year), monthly corporate remittances during the April to December period of 2004-05



The Fiscal Monitor

were understated. As a result, the growth rate of corporate remittances in April and May 2005, which now reflect the higher 2004 tax year liability, is higher than it would have been if monthly remittances last year had been consistent with the tax liability for the year as a whole. Thus the increase in corporate tax receipts in April and May over the same period last year overstates the underlying growth in corporate income tax revenues.

- Excise taxes and duties increased \$0.9 billion, or 12.6 per cent. Goods and services tax revenues rose \$0.7 billion, or 13.5 per cent. Customs import duties and sales and excise taxes were each up \$0.1 billion, while the Air Travellers Security Charge fell \$3 million.
- Employment insurance (EI) premiums rose 2.8 per cent, as gains in employment and wages and salaries more than offset the impact of the decline in the premium rate from \$1.98 per \$100 of insurable earnings in 2004 (employee rate) to \$1.95 in 2005.
- Other revenues increased \$0.1 billion, or 4.6 per cent. This category tends to be volatile on a monthly basis.

On a year-over-year basis, program expenses in April and May were up \$2.3 billion, or 10.0 per cent, to \$25.0 billion. This increase is mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/Territorial Formula Financing (TFF).

Transfer payments increased by \$2.0 billion, or 13.6 per cent.

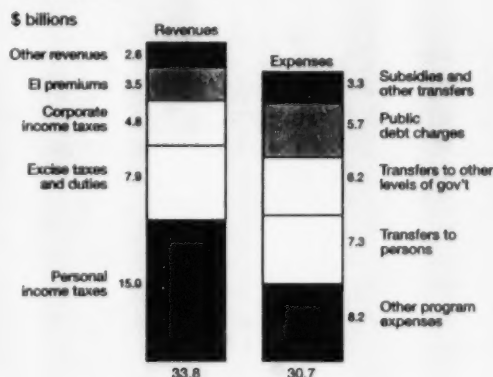
- Transfers to persons advanced by \$155 million, or 2.2 per cent. Elderly benefits were up 5.1 per cent while EI benefits were down 2.9 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with the improvement in the labour market.

- Transfers to other levels of government were up \$1.1 billion, or 22.3 per cent, reflecting higher transfers in support of health and other social programs and higher fiscal transfers, resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$719 million, or 28.3 per cent, primarily reflecting the timing of payments and the impact of previous budget measures. This component is volatile on a monthly basis.

Other program expenses increased by \$261 million, or 3.3 per cent, as lower expenses related to Crown corporations and defence were more than offset by higher expenses related to other departments and agencies. Defence expenses were down \$85 million, or 4.9 per cent, while program expenses for all other departments and agencies were up \$351 million, or 6.8 per cent. Transfers to Crown corporations fell slightly by \$5 million, or 0.5 per cent.

Public debt charges were \$153 million lower, primarily reflecting the impact of a decline in the stock of interest-bearing debt.

Revenues and expenses (April-May 2005)



Financial requirement of \$1.8 billion for April and May 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities (through its acquisition of capital assets and its loans, financial investments and advances), pensions and other accounts, as well as other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

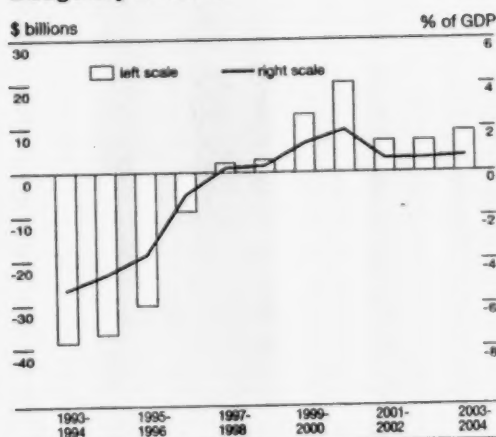
Non-budgetary transactions resulted in a net requirement of \$5.0 billion in April and May 2005, an increase of \$0.5 billion from the requirement of \$4.5 billion in the same period of 2004-05. Traditionally, there are large requirements in the first half of the fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

With a budgetary surplus of \$3.1 billion and a net requirement of \$5.0 billion from non-budgetary transactions, there was a financial requirement of \$1.8 billion in the first two months of 2005-06, compared to a requirement of \$2.7 billion in the same period of 2004-05.

Net financing activities down \$4.4 billion

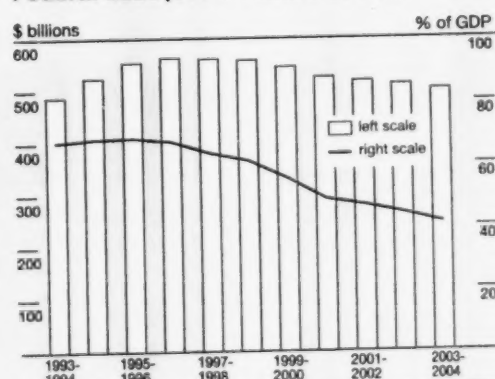
The Government reduced its net financing activities by \$4.4 billion in April and May 2005 through a reduction of its cash balances. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$10.9 billion.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

Table 1
Summary statement of transactions

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
(\$ millions)						
Budgetary transactions						
Revenues	15,178	17,447	15,211	16,359	30,388	33,806
Expenses						
Program expenses	-11,507	-12,497	-11,253	-12,532	-22,760	-25,029
Public debt charges	-2,856	-2,778	-2,968	-2,893	-5,824	-5,671
Budgetary balance (deficit/surplus)	815	2,172	990	934	1,804	3,106
Non-budgetary transactions	-4,882	-7,264	385	2,312	-4,497	-4,952
Financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846
Net change in financing activities	-7,914	-8,099	9,028	3,703	1,114	-4,396
Net change in cash balances	-11,981	-13,191	10,403	6,949	-1,579	-6,242
Cash balance at end of period					15,747	10,878

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
(\$ millions)						
Tax revenues						
Income taxes						
Personal income tax	6,992	7,986	6,925	7,007	13,916	14,993
Corporate income tax	1,481	2,404	2,095	2,440	3,577	4,844
Other income tax revenue	247	234	321	340	568	574
Total income tax	8,720	10,624	9,341	9,787	18,061	20,411
Excise taxes and duties						
Goods and services tax	2,788	2,919	2,332	2,893	5,120	5,812
Customs import duties	235	242	227	273	462	514
Sales and excise taxes	758	749	652	807	1,410	1,557
Air Travellers Security Charge	38	33	27	29	65	62
Total excise taxes and duties	3,819	3,943	3,238	4,002	7,057	7,945
Total tax revenues	12,539	14,567	12,579	13,789	25,118	28,356
Employment insurance premiums	1,697	1,754	1,671	1,707	3,368	3,461
Other revenues	942	1,126	961	863	1,902	1,989
Total budgetary revenues	15,178	17,447	15,211	16,359	30,388	33,806

Note: Totals may not sum due to rounding.

Table 3

Budgetary expenses

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Transfer payments						
Transfers to persons						
Elderly benefits	2,281	2,402	2,286	2,396	4,567	4,798
Employment insurance benefits	1,390	1,160	1,213	1,366	2,602	2,526
Total	3,671	3,562	3,499	3,762	7,169	7,324
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,584	1,054	1,583	2,108	3,167
Canada Social Transfer	652	686	652	685	1,304	1,371
Health Reform Transfer	125	0	125	0	250	0
Canada Health and Social Transfer	8	0	8	0	16	0
Fiscal transfers	815	949	1,087	1,228	1,902	2,178
Alternative Payments for Standing Programs	-253	-254	-253	-254	-506	-508
Total	2,401	2,965	2,673	3,242	5,074	6,208
Subsidies and other transfers						
Agriculture	12	70	47	275	59	345
Foreign Affairs	171	267	164	126	335	393
Health	128	103	159	171	286	274
Human Resources Development	148	115	155	100	303	215
Indian and Northern Development	630	674	299	296	929	970
Industry and Regional Development	116	119	108	88	225	207
Other	216	490	191	369	407	859
Total	1,421	1,838	1,123	1,425	2,544	3,263
Total transfer payments	7,493	8,365	7,295	8,429	14,787	16,795
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	212	205	87	75	299	280
Canada Mortgage and Housing Corporation	144	149	216	219	360	368
Other	285	214	108	185	392	398
Total	641	568	411	479	1,051	1,046
Defence	709	809	1,031	847	1,741	1,656
All other departments and agencies	2,664	2,755	2,516	2,777	5,181	5,532
Total other program expenses	4,014	4,132	3,958	4,103	7,973	8,234
Total program expenses	11,507	12,497	11,253	12,532	22,760	25,029
Public debt charges	2,856	2,778	2,968	2,893	5,824	5,671
Total budgetary expenses	14,363	15,275	14,221	15,425	28,584	30,700

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Budgetary balance (deficit/surplus)	815	2,172	990	934	1,804	3,106
Non-budgetary transactions						
Capital investing activities	144	108	-359	8	-215	116
Other investing activities	177	-463	-65	-15	112	-479
Pension and other accounts	-550	-568	884	-253	334	-821
Other activities						
Accounts payable, receivables, accruals and allowances	-5,537	-7,476	782	2,435	-4,755	-5,040
Foreign exchange activities	611	878	-1,106	-105	-495	773
Amortization of tangible capital assets	273	257	249	242	522	499
Total other activities	-4,653	-6,341	-75	2,572	-4,728	-3,768
Total non-budgetary transactions	-4,882	-7,264	385	2,312	-4,497	-4,952
Net financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Net financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846
Net increase (+)/decrease (-) in financing activities						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	-2,818	-1,109	4,974	2,776	2,156	1,667
Treasury bills	-3,800	-5,700	3,800	1,200	0	-4,500
Canada Savings Bonds	-9	-61	-38	-78	-47	-139
Other	-25	0	17	0	-8	0
Total	-6,652	-6,870	8,753	3,898	2,101	-2,972
Foreign currency borrowings	-1,249	-1,229	275	-195	-974	-1,424
Total	-7,901	-8,099	9,028	3,703	1,127	-4,396
Obligations related to capital leases	-13	0	0	0	-13	0
Net change in financing activities	-7,914	-8,099	9,028	3,703	1,114	-4,396
Change in cash balance	-11,981	-13,191	10,403	6,949	-1,579	-6,242

Note: Totals may not sum due to rounding.

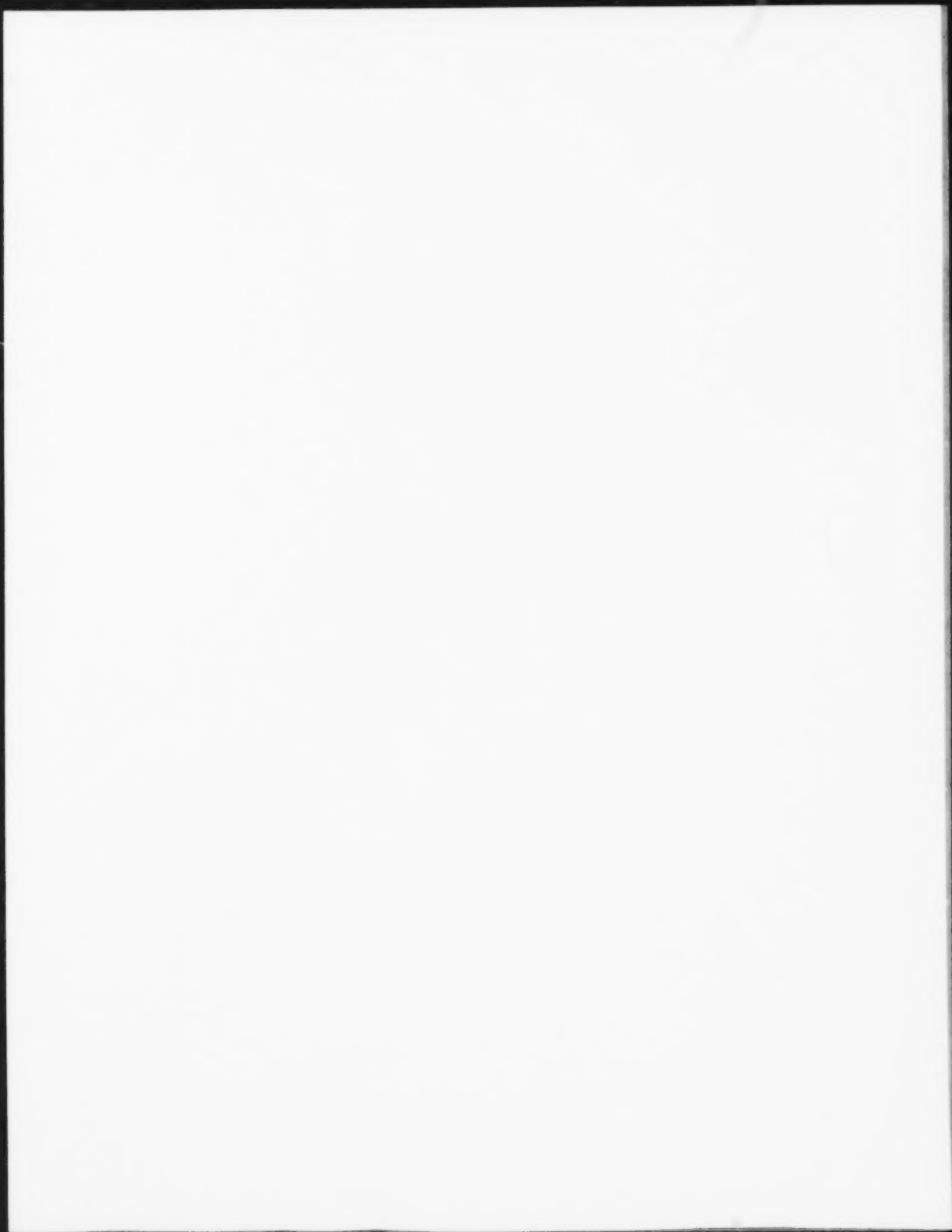
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

August 2005



The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2005: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in June 2005, \$0.6 billion higher than the surplus of \$1.1 billion reported in June 2004. This year-over-year improvement is attributable to higher revenues, up \$1.9 billion, or 12.7 per cent, reflecting both increases in the applicable tax bases and timing factors, which will likely unwind over the course of the fiscal year. These timing factors relate to differences in the timing of personal income tax receipts between the 2004-05 and 2005-06 fiscal years and unusually low corporate income tax receipts in early 2004-05. Dampening the impact of this increase on the budgetary balance were higher program expenses, up \$1.3 billion, or 11.5 per cent, primarily reflecting higher transfers to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased marginally.

April to June 2005: budgetary surplus of \$4.8 billion

For the first three months of the 2005-06 fiscal year (April to June), the budgetary surplus is estimated at \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period last year. Budgetary revenues were up \$5.4 billion, or 11.8 per cent, with gains reported in all major components. As discussed above, some of this increase is attributable to timing factors, which should unwind over the course of the year. Program expenses were up \$3.6 billion, or 10.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were marginally lower.

June 2005: budgetary results

The June 2005 budgetary surplus of \$1.7 billion was \$0.6 billion higher than that reported in June 2004.

On a year-over-year basis, budgetary revenues, at \$17.1 billion, were up \$1.9 billion, or 12.7 per cent. This increase primarily reflects strong year-over-year gains in personal and corporate income tax revenues, attributable to both strong growth in the applicable tax bases and timing factors, which should unwind over the course of the fiscal year.

- Personal income tax revenues were up \$0.8 billion, or 12.0 per cent, primarily due to strong gains in source deductions. This is substantially stronger than the estimated gain in wages and salaries of between 2½ and 3 per cent, which indicates that some of the year-over-year increase in personal income taxes likely reflects the timing of receipts between the 2004-05 and 2005-06 fiscal years. This should be corrected over the next couple of months.



Department of Finance
Canada

Ministère des Finances
Canada

Canada

The Fiscal Monitor

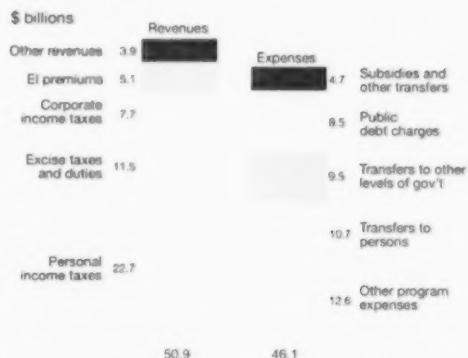
- Corporate income tax revenues increased by \$0.7 billion, or 33.5 per cent, more than double the increase in corporate profits. This difference can be explained by the remittance procedures under which corporations are required to remit monthly instalments. Corporations make monthly instalments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly instalments now based on their 2004 tax liabilities, the year-over-year growth overstates the underlying growth in corporate income tax revenues. This will be corrected when the settlement payments are received at the end of the fiscal year.
- Excise taxes and duties increased \$246 million, or 7.5 per cent. Goods and services tax (GST) revenues were up by \$218 million, or 10.1 per cent, reflecting strong growth in GST on imports. Customs import duties were up strongly, while sales and excise taxes were lower. Revenues from the Air Travellers Security Charge were lower, reflecting the reductions announced in the 2005 budget.
- Employment insurance (EI) premiums were up slightly, as the reduction in premium rates (the employee rate for 2005 is \$1.95 per \$100 of insurable earnings compared to \$1.98 in 2004) was more than offset by the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up marginally.

On a year-over-year basis, program expenses in June 2005 were \$12.5 billion, up \$1.3 billion or 11.5 per cent from June 2004, primarily due to higher transfer payments resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.

Transfer payments were up \$1.0 billion, or 13.2 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$99 million, or 3.0 per cent, on a year-over-year basis. Elderly benefits increased 5.1 per cent due to both higher average benefits, which have risen because of higher inflation in early 2005, and an increase in the number of individuals eligible for benefits. EI benefit payments declined 1.8 per cent primarily due to a decline in regular benefits, reflecting the improvement in the labour market situation.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.8 billion, or 31.7 per cent. The increase in federal transfers in support of health and other social programs

Revenues and expenses (April-June 2005)



reflects increased funding under the 2004 agreement on health care. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowances Recovery Program. In aggregate, on a year-over-year basis, these transfers increased by 39.7 per cent, reflecting the new framework for equalization and TFF announced in October 2004.

- Subsidies and other transfers increased by 3.6 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.3 billion, or 8.3 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile over the first few months of the fiscal year, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were virtually unchanged, as changes in the composition of interest-bearing debt offset the impact of a decline in the overall stock of that debt.

April to June 2005: budgetary results

For the first three months of the 2005-06 fiscal year, there was a budgetary surplus of \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period of 2004-05.

Budgetary revenues, at \$50.9 billion, were up \$5.4 billion, or 11.8 per cent, reflecting both strong gains in the applicable tax bases and timing factors.

- Personal income tax revenues increased by \$1.9 billion, or 9.2 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past 12 months. Wages and salaries are estimated to have advanced between 2½ to 3 per cent over this period. The difference between the growth in revenues and the base primarily reflects the timing of receipts.
- Corporate income tax revenues were up \$2.0 billion, or 34.7 per cent, more than double the growth in corporate profits.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

As noted above, part of this increase is attributable to remittance procedures, the impact of which will unwind towards the end of the fiscal year.

- Excise taxes and duties increased by \$1.1 billion, or 11.0 per cent. GST revenues increased by \$0.9 billion, or 12.5 per cent, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were up 5.0 per cent, while the Air Travellers Security Charge was down 6.3 per cent.
- EI premiums were up 2.7 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 6.1 per cent.

On a year-over-year basis, program expenses in the April to June 2005 period, at \$37.5 billion, were up \$3.6 billion or 10.6 per cent over the same period of 2004-05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.1 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.0 billion, or 13.4 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 5.1 per cent, while EI benefits were down 2.6 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$1.9 billion, or 25.5 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 19.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 5.4 per cent, as lower year-over-year Crown corporation expenses were more than offset by increases in departmental operating costs.

The decline in public debt charges is attributable to the decline in the stock of interest-bearing debt.

Financial requirement of \$5.4 billion for April to June 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and the financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April to June period, up marginally from the requirement in the same period of 2004-05.

With a budgetary surplus of \$4.8 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first three months of 2005-06, down \$1.8 billion from the same period last year.

Net financing activities down \$8.3 billion

The Government's market debt was down \$8.3 billion by the end of June 2005, with all components being lower. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$13.7 billion.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at \$3.4 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	15,144	17,060	45,499	50,880
Expenses				
Program expenses	-11,205	-12,490	-33,932	-37,535
Public debt charges	-2,842	-2,845	-8,666	-8,517
Budgetary balance (deficit/surplus)	1,097	1,725	2,901	4,828
Non-budgetary transactions	-5,587	-5,280	-10,085	-10,235
Financial source/requirement	-4,490	-3,555	-7,184	-5,407
Net change in financing activities	-8,918	-3,881	-7,803	-8,277
Net change in cash balances	-13,408	-7,436	-14,987	-13,684
Cash balance at end of period			2,264	3,441

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	June			April to June		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,894	7,722	12.0	20,810	22,716	9.2
Corporate income tax	2,125	2,836	33.5	5,702	7,680	34.7
Other income tax revenue	267	313	17.2	835	887	6.2
Total income tax	9,286	10,871	17.1	27,347	31,283	14.4
Excise taxes and duties						
Goods and services tax	2,165	2,383	10.1	7,285	8,195	12.5
Customs import duties	216	282	30.6	677	797	17.7
Sales and excise taxes	881	846	-4.0	2,290	2,404	5.0
Air Travellers Security Charge	31	28	-9.7	96	90	-6.3
Total excise taxes and duties	3,293	3,539	7.5	10,348	11,486	11.0
Total tax revenues	12,579	14,410	14.6	37,695	42,769	13.5
Employment insurance premiums	1,603	1,645	2.6	4,971	5,105	2.7
Other revenues	962	1,005	4.5	2,833	3,006	6.1
Total budgetary revenues	15,144	17,060	12.7	45,499	50,880	11.8

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	June		Change	April to June		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,288	2,405	5.1	6,855	7,203	5.1
Employment insurance benefits	1,013	995	-1.8	3,615	3,520	-2.6
Total	3,301	3,400	3.0	10,470	10,723	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		3,163	4,750	
Canada Social Transfer	652	685		1,956	2,056	
Health Reform Transfer	125	0		375	0	
Canada Health and Social Transfer	8	0		25	0	
Total	1,839	2,268	23.3	5,519	6,806	23.3
Fiscal transfers	945	1,320	39.7	2,846	3,498	22.9
Alternative Payments for Standing Programs	-253	-254	0.4	-759	-761	0.3
Total	2,531	3,334	31.7	7,606	9,543	25.5
Subsidies and other transfers						
Agriculture	65	103	58.5	124	448	261.3
Foreign Affairs	241	114	-52.7	576	507	-12.0
Health	89	136	52.8	375	410	9.3
Human Resources Development	100	75	-25.0	404	291	-28.0
Indian and Northern Development	283	360	27.2	1,212	1,330	9.7
Industry and Regional Development	139	221	59.0	363	428	17.9
Other	447	404	-9.6	859	1,265	47.3
Total	1,364	1,413	3.6	3,913	4,679	19.6
Total transfer payments	7,196	8,147	13.2	21,989	24,945	13.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	67	75	11.9	366	355	-3.0
Canada Mortgage and Housing Corporation	195	150	-23.1	555	518	-6.7
Other	184	122	-33.7	578	522	-9.7
Total	446	347	-22.2	1,499	1,395	-6.9
Defence	906	1,222	34.9	2,649	2,878	8.6
All other departments and agencies	2,657	2,774	4.4	7,795	8,317	6.7
Total other program expenses	4,009	4,343	8.3	11,943	12,590	5.4
Total program expenses	11,205	12,490	11.5	33,932	37,535	10.6
Public debt charges	2,842	2,845	0.1	8,666	8,517	-1.7
Total budgetary expenses	14,047	15,335	9.2	42,598	46,052	8.1

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,097	1,725	2,901	4,828
Non-budgetary transactions				
Capital investing activities	-37	-275	-254	-159
Other investing activities	-204	-257	-92	-735
Pension and other accounts	-5	-112	330	-936
Other activities				
Accounts payable, receivables, accruals and allowances	-6,238	-4,684	-10,992	-9,725
Foreign exchange activities	671	-184	175	589
Amortization of tangible capital assets	226	232	748	731
Total other activities	-5,341	-4,636	-10,069	-8,405
Total non-budgetary transactions	-5,587	-5,280	-10,085	-10,235
Net financial source/requirement	-4,490	-3,555	-7,184	-5,407

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	-4,490	-3,555	-7,184	-5,407
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-9,867	-3,303	-7,710	-1,636
Treasury bills	800	-400	800	-4,900
Canada Savings Bonds	-75	-81	-122	-220
Other	-6	-139	-14	-139
Total	-9,148	-3,923	-7,046	-6,895
Foreign currency borrowings	231	44	-743	-1,380
Total	-8,917	-3,879	-7,789	-8,275
Obligations related to capital leases	-1	-2	-14	-2
Net change in financing activities	-8,918	-3,881	-7,803	-8,277
Change in cash balance	-13,408	-7,436	-14,987	-13,684

Note: Totals may not sum due to rounding.

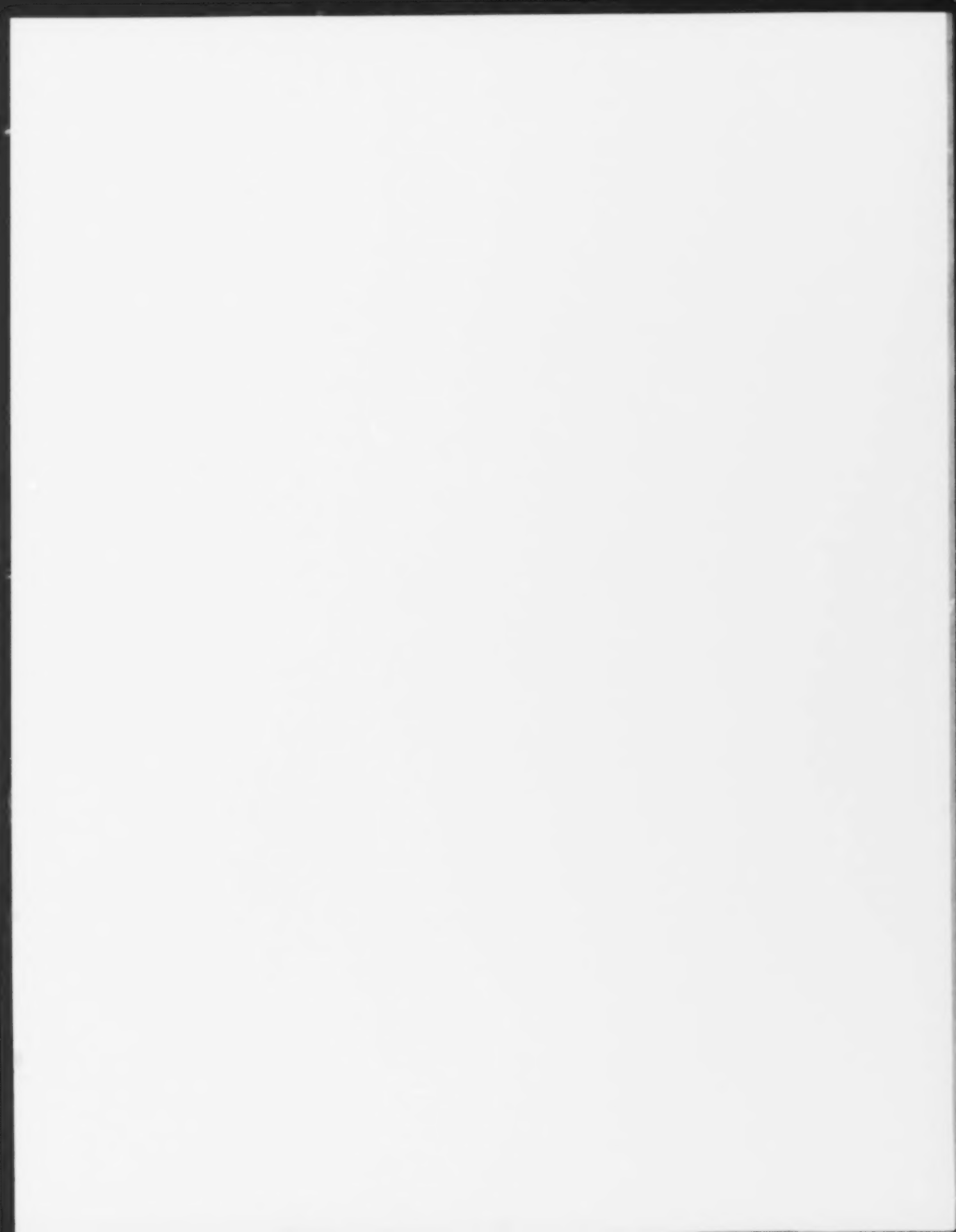
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

August 2005



The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2005: budgetary surplus of \$2.3 billion

There was a budgetary surplus of \$2.3 billion in July 2005, \$0.9 billion higher than the surplus of \$1.4 billion reported in July 2004. This year-over-year improvement in the budgetary surplus is attributable to higher revenues, up \$1.7 billion, or 10.4 per cent, compared to the same period last year. Program expenses rose \$1.0 billion, or 9.0 per cent, primarily reflecting higher transfer payments, in particular higher transfers to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined by \$0.2 billion.

April to July 2005: budgetary surplus of \$7.1 billion

For the first four months of the 2005–06 fiscal year (April to July), the budgetary surplus is estimated at \$7.1 billion, up \$2.8 billion from the \$4.3-billion surplus reported in the same period last year.

Budgetary revenues were up \$7.1 billion, or 11.5 per cent, reflecting strong year-over-year gains in personal and corporate income tax receipts. Strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income, which are currently growing at about twice the rate of the estimated growth in wages and salaries. Higher corporate income tax receipts in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$4.6 billion, or 10.2 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.4 billion lower.

The monthly financial results for the first part of the year are variable. Caution should be exercised in using these results to project the outcome for the year as a whole. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.

July 2005

There was a budgetary surplus of \$2.3 billion in July 2005, up \$0.9 billion from the \$1.4-billion surplus reported during the same month last year.

Budgetary revenues totalled \$17.7 billion, an increase of \$1.7 billion, or 10.4 per cent, from July 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$1.1 billion, or 14.5 per cent, due to strong

growth in source deductions from employment income.

- Corporate income tax revenues increased by \$0.1 billion, or 5.2 per cent, reflecting ongoing gains in profits.
- Excise taxes and duties declined \$225 million, or 5.6 per cent. Goods and services tax (GST) revenues declined 0.3 per cent as a result of higher refunds. Customs import duties were down \$68 million, while sales and excise taxes were \$144 million lower.



The Fiscal Monitor

Revenues from the Air Travellers Security Charge were \$4 million lower, reflecting the reductions in the charge, as announced in the 2005 budget.

- Employment insurance (EI) premiums were down slightly, falling 0.4 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$553 million, or 59.7 per cent. Other revenues are volatile on a monthly basis.

On a year-over-year basis, program expenses in July 2005 were \$12.6 billion, up \$1.0 billion or 9.0 per cent from July 2004, due mainly to higher transfer payments.

Transfer payments were \$0.6 billion or 8.1 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$224 million, or 6.9 per cent, on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments increased by 12.8 per cent, primarily due to an increase in special benefits, such as sickness and paternal benefits, reflecting differences in the timing of payments between July 2005 and July 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.3 billion, or 12.2 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the 2004 agreement on health care.

- Subsidies and other transfers increased by 2.8 per cent.

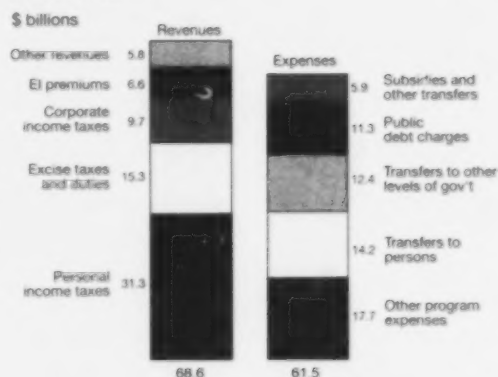
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.5 billion, or 10.2 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges decreased by \$0.2 billion, or 7.6 per cent, due to both a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April to July 2005

In the first four months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.1 billion, up \$2.8 billion from the surplus of \$4.3 billion reported in the same period of 2004–05.

Revenues and expenses (April-July 2005)



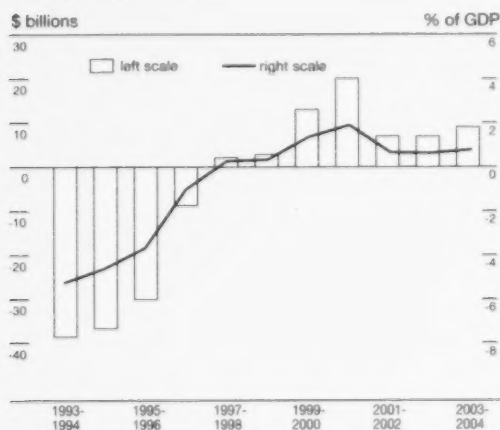
Budgetary revenues, at \$68.6 billion, were up \$7.1 billion, or 11.5 per cent.

- Personal income tax revenues increased by \$3.0 billion, or 10.6 per cent, much higher than the estimated growth in wages and salaries of about 5 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income.
- Corporate income tax revenues were up \$2.1 billion, or 27.3 per cent, over the last year, or more than double the growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large

settlement payments in the final quarter of 2004-05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through July 2004 reflecting 2003 liabilities, the growth in corporate receipts so far this year overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received at the end of the 2005-06 fiscal year.

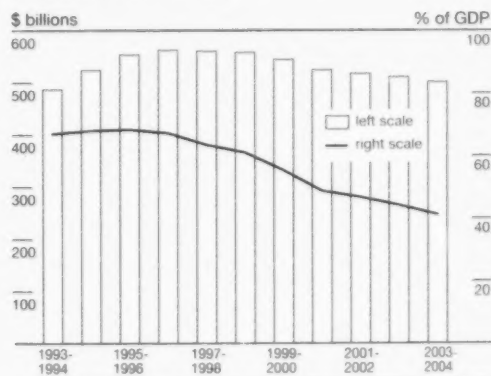
- Excise taxes and duties increased by \$0.9 billion, or 6.3 per cent. GST revenues increased by \$0.9 billion, or 9.0 per cent, well above the growth of the applicable tax base, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were down 0.9 per cent, while the Air Travellers Security Charge was down 8.4 per cent.
- EI premiums were up 2.0 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 19.4 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

On a year-over-year basis, program expenses in the April to July 2005 period, at \$50.2 billion, were up \$4.6 billion, or 10.2 per cent, over the same period of 2004-05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.4 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.5 billion, or 12.2 per cent.

- Transfers to persons advanced by 3.5 per cent. Elderly benefits were up 4.9 per cent, while EI benefits were up 0.7 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits were higher.
- Transfers to other levels of government were up \$2.2 billion, or 22.1 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization/TFF.
- Subsidies and other transfers increased by 15.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 6.8 per cent due to increases in departmental operating costs. Crown corporation expenses were virtually unchanged.

The decline in public debt charges is attributable to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$5.4 billion for April to July 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.5 billion in the April-to-July period, up \$2.4 billion from the requirement in the same period of 2004-05. This increase reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the offshore revenue agreements.

With a budgetary surplus of \$7.1 billion and a net requirement of \$12.5 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first four months of 2005-06, down \$0.4 billion from the same period last year.

Net financing activities down \$8.4 billion

The Government's market debt was down \$8.4 billion by the end of July 2005, with all components being lower. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$13.8 billion.

The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$3.4 billion.

The Fiscal Monitor

Table 1
Summary statement of transactions

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,051	17,715	61,552	68,602
Expenses				
Program expenses	-11,598	-12,638	-45,532	-50,176
Public debt charges	-3,031	-2,801	-11,696	-11,319
Budgetary balance (deficit/surplus)	1,422	2,276	4,324	7,107
Non-budgetary transactions	-68	-2,272	-10,153	-12,508
Financial source/requirement	1,354	4	-5,829	-5,401
Net change in financing activities	807	-84	-6,995	-8,361
Net change in cash balances	2,161	-80	-12,824	-13,762
Cash balance at end of period			4,425	3,361

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	July			April to July		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,453	8,536	14.5	28,265	31,253	10.6
Corporate income tax	1,899	1,997	5.2	7,600	9,677	27.3
Other income tax revenue	266	427	60.5	1,101	1,315	19.4
Total income tax	9,618	10,960	14.0	36,966	42,245	14.3
Excise taxes and duties						
Goods and services tax	2,728	2,719	-0.3	10,013	10,914	9.0
Customs import duties	317	249	-21.5	995	1,046	5.1
Sales and excise taxes	960	816	-15.0	3,250	3,221	-0.9
Air Travellers Security Charge	35	31	-11.4	131	120	-8.4
Total excise taxes and duties	4,040	3,815	-5.6	14,389	15,301	6.3
Total tax revenues	13,658	14,775	8.2	51,355	57,546	12.1
Employment insurance premiums	1,466	1,460	-0.4	6,438	6,566	2.0
Other revenues	927	1,480	59.7	3,759	4,490	19.4
Total budgetary revenues	16,051	17,715	10.4	61,552	68,602	11.5

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	July		Change	April to July		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,273	2,371	4.3	9,127	9,574	4.9
Employment insurance benefits	981	1,107	12.8	4,597	4,628	0.7
Total	3,254	3,478	6.9	13,724	14,202	3.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		4,217	6,333	
Canada Social Transfer	652	685		2,608	2,742	
Health Reform Transfer	125	0		500	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	7,350	9,075	23.5
Fiscal transfers	943	831	-11.9	3,790	4,330	14.2
Alternative Payments for Standing Programs	-225	-239	6.2	-984	-1,001	1.7
Total	2,549	2,860	12.2	10,156	12,404	22.1
Subsidies and other transfers						
Agriculture	29	-55	-289.7	153	393	156.9
Foreign Affairs	151	173	14.6	727	680	-6.5
Health	233	211	-9.4	608	621	2.1
Human Resources Development	88	103	17.0	492	393	-20.1
Indian and Northern Development	340	316	-7.1	1,552	1,646	6.1
Industry and Regional Development	131	147	12.2	495	575	16.2
Other	215	325	51.2	1,072	1,587	48.0
Total	1,187	1,220	2.8	5,099	5,895	15.6
Total transfer payments	6,990	7,558	8.1	28,979	32,501	12.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	94	100	6.4	460	455	-1.1
Canada Mortgage and Housing Corporation	170	186	9.4	725	704	-2.9
Other	122	211	73.0	701	733	4.6
Total	386	497	28.8	1,886	1,892	0.3
Defence	1,120	1,566	39.8	3,768	4,444	17.9
All other departments and agencies	3,102	3,017	-2.7	10,899	11,339	4.0
Total other program expenses	4,608	5,080	10.2	16,553	17,675	6.8
Total program expenses	11,598	12,638	9.0	45,532	50,176	10.2
Public debt charges	3,031	2,801	-7.6	11,696	11,319	-3.2
Total budgetary expenses	14,629	15,439	5.5	57,228	61,495	7.5

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,422	2,276	4,324	7,107
Non-budgetary transactions				
Capital investing activities	-19	178	-272	19
Other investing activities	-264	-595	-356	-1,331
Pension and other accounts	-636	-305	-307	-1,241
Other activities				
Accounts payable, receivables, accruals and allowances	489	-3,491	-10,503	-13,216
Foreign exchange activities	104	1,679	279	2,268
Amortization of tangible capital assets	258	262	1,006	993
Total other activities	851	-1,550	-9,218	-9,955
Total non-budgetary transactions	-68	-2,272	-10,153	-12,508
Net financial source/requirement	1,354	4	-5,829	-5,401

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	1,354	4	-5,829	-5,401
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	278	758	-7,432	-878
Treasury bills	1,000	1,300	1,800	-3,600
Canada Savings Bonds	-61	-88	-183	-308
Other	-5	-2	-19	-141
Total	1,212	1,968	-5,834	-4,927
Foreign currency borrowings	-391	-2,125	-1,133	-3,504
Total	821	-157	-6,967	-8,431
Obligations related to capital leases	-14	73	-28	70
Net change in financing activities	807	-84	-6,995	-8,361
Change in cash balance	2,161	-80	-12,824	-13,762

Note: Totals may not sum due to rounding.

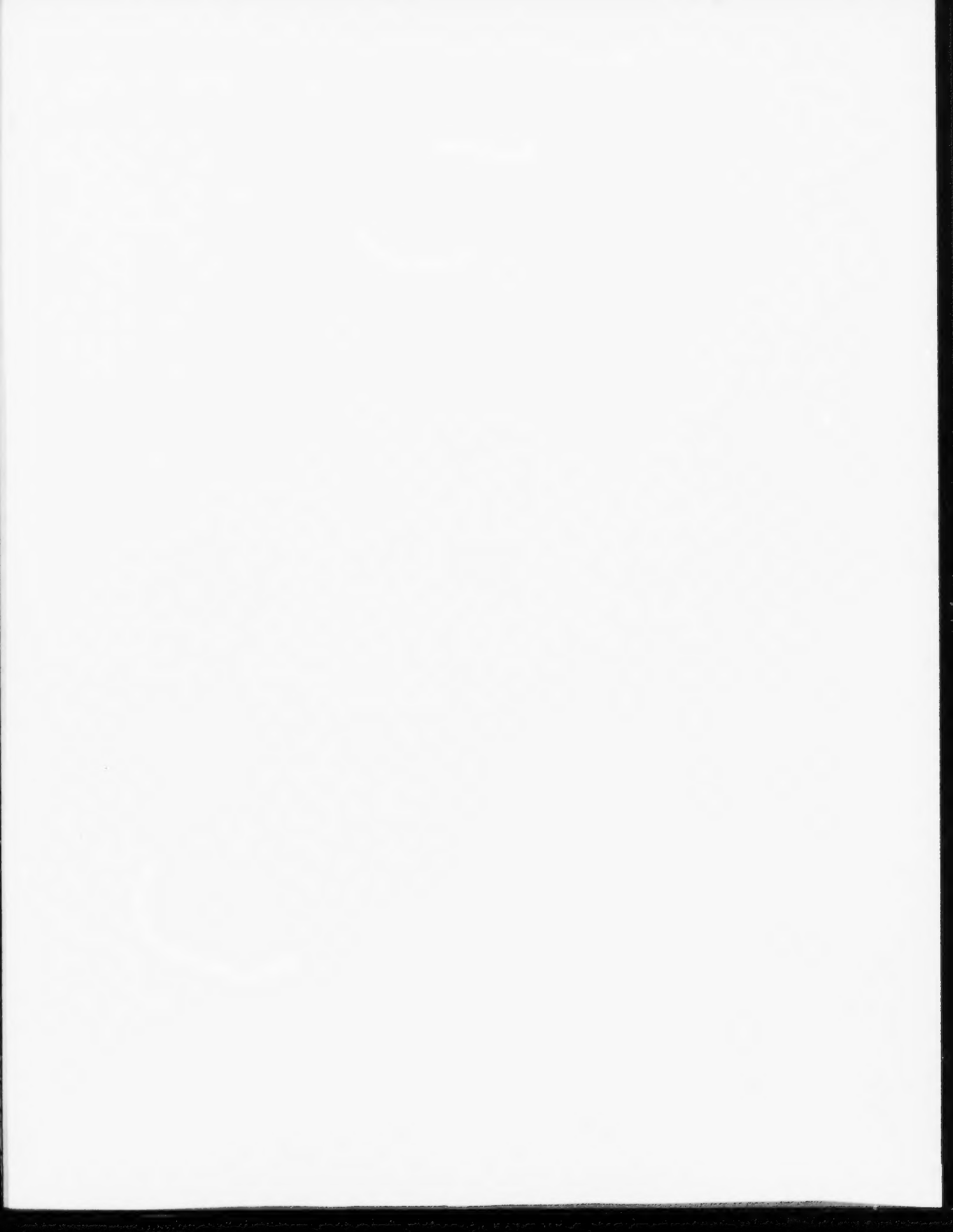
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

September 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2005: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported in August 2004, in part reflecting a slowing in the growth of personal income tax revenues and a decline in net goods and services tax (GST) revenues. Total revenues were up \$0.4 billion or 3.1 per cent. Program expenses were \$1.1 billion or 10.1 per cent higher, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined by \$0.1 billion.

April to August 2005: budgetary surplus of \$6.8 billion

For the first five months of the 2005–06 fiscal year (April to August), the budgetary surplus is estimated at \$6.8 billion, up \$2.2 billion from the \$4.6-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$7.5 billion or 9.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax receipts. The strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income. Higher corporate income tax receipts in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$5.8 billion or 10.2 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.5 billion lower.

The monthly financial results for the first five months of the year are only partial-year results. Caution should therefore be exercised in using these results to project the outcome for the full year. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.

August 2005

There was a budgetary deficit \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported during the same month last year.

Budgetary revenues totalled \$15.1 billion, an increase of \$0.4 billion or 3.1 per cent from August 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$0.2 billion or 2.9 per cent.

- Corporate income tax revenues increased by \$0.3 billion or 30.8 per cent, reflecting timing factors related to remittance procedures.
- Excise taxes and duties declined \$56 million or 1.4 per cent. GST revenues declined 3.6 per cent as a result of higher refunds. Customs import duties were up \$23 million, while sales and excise taxes were up \$24 million. Revenues from the Air Travellers Security Charge were up marginally.



The Fiscal Monitor

- Employment insurance (EI) premiums were down slightly (0.9 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$33 million, or 3.3 per cent. Other revenues are volatile on a monthly basis.

Program expenses were \$12.5 billion in August 2005, up \$1.1 billion or 10.1 per cent from August 2004, due mainly to higher transfer payments.

Transfer payments were \$0.9 billion or 12.7 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$54 million, or 1.5 per cent, on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 11.1 per cent, primarily due to a decrease in regular benefits, reflecting differences in the timing of payments between August 2005 and August 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.6 billion, or 23.0 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers increased by 38.7 per cent. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from recent budgets.

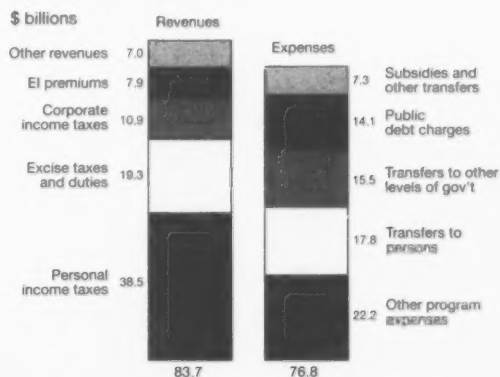
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.2 billion, or 5.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges decreased by \$0.1 billion, or 4.4 per cent, due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April to August 2005

In the first five months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.8 billion, up \$2.2 billion from the surplus of \$4.6 billion reported in the same period of 2004–05.

Revenues and expenses (April-August 2005)



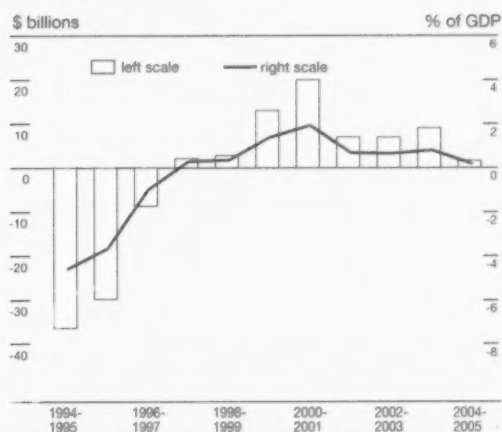
Budgetary revenues, at \$83.7 billion, were up \$7.5 billion or 9.8 per cent.

- Personal income tax revenues increased by \$3.2 billion or 9.0 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income.
- Corporate income tax revenues were up \$2.4 billion or 27.7 per cent over the same period last year, or more than double the growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly installments. Corporations make monthly tax installment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their installments on their 2003 tax liabilities.

However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly installments in 2005 now based on 2004 tax liabilities, but installments through August 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received at the end of the 2005-06 fiscal year.

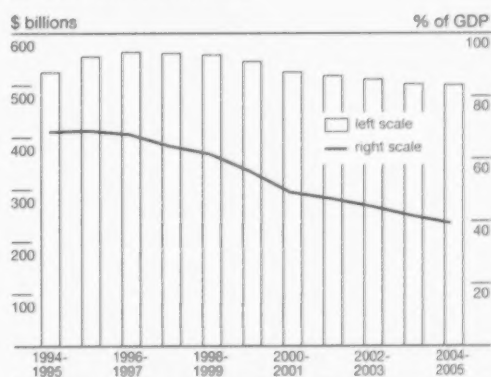
- Excise taxes and duties increased by \$0.9 billion or 4.6 per cent. GST revenues increased by \$0.8 billion or 6.2 per cent. Customs import duties were up 5.7 per cent, while sales and excise taxes and the Air Travellers Security Charge were down 0.1 per cent and 6.3 per cent, respectively.
- EI premiums were up 1.5 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were up 14.7 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

On a year-over-year basis, program expenses in the April to August 2005 period, at \$62.7 billion, were up \$5.8 billion or 10.2 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$4.4 billion or 12.3 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 2.0 per cent. The decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$2.8 billion or 22.3 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 19.4 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 6.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 1.3 per cent.

The decline in public debt charges is attributable to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$5.4 billion for April to August 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the

financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$12.2 billion in the April-to-August period, up \$3.5 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$6.8 billion and a net requirement of \$12.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first five months of 2005–06, up \$1.3 billion from the same period last year.

Net financing activities down \$4.5 billion

The Government's market debt was down \$4.5 billion by the end of August 2005. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$9.8 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at \$7.3 billion.

The Fiscal Monitor

Table 1
Summary statement of transactions

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	14,603	15,050	76,151	83,650
Expenses				
Program expenses	-11,390	-12,538	-56,920	-62,714
Public debt charges	-2,913	-2,784	-14,609	-14,103
Budgetary balance (deficit/surplus)	300	-272	4,622	6,833
Non-budgetary transactions	1,417	297	-8,735	-12,208
Financial source/requirement	1,717	25	-4,113	-5,375
Net change in financing activities	2,850	3,904	-4,145	-4,458
Net change in cash balances	4,567	3,929	-8,258	-9,833
Cash balance at end of period			8,994	7,290

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	August			April to August		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,076	7,283	2.9	35,340	38,536	9.0
Corporate income tax	972	1,271	30.8	8,572	10,949	27.7
Other income tax revenue	218	260	19.3	1,319	1,575	19.4
Total income tax	8,266	8,814	6.6	45,231	51,060	12.9
Excise taxes and duties						
Goods and services tax	2,906	2,802	-3.6	12,919	13,716	6.2
Customs import duties	309	332	7.4	1,304	1,378	5.7
Sales and excise taxes	797	821	3.0	4,047	4,042	-0.1
Air Travellers Security Charge	28	29	3.6	159	149	-6.3
Total excise taxes and duties	4,040	3,984	-1.4	18,429	19,285	4.6
Total tax revenues	12,306	12,798	4.0	63,660	70,345	10.5
Employment insurance premiums	1,309	1,297	-0.9	7,746	7,863	1.5
Other revenues	988	955	-3.3	4,745	5,442	14.7
Total budgetary revenues	14,603	15,050	3.1	76,151	83,650	9.8

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	August			April to August		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,310	2,404	4.1	11,437	11,978	4.7
Employment insurance benefits	1,328	1,180	-11.1	5,925	5,808	-2.0
Total	3,638	3,584	-1.5	17,362	17,786	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		5,271	7,917	
Canada Social Transfer	652	685		3,260	3,427	
Health Reform Transfer	125	0		625	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	9,181	11,344	23.6
Fiscal transfers	927	1,044	12.6	4,717	5,375	13.9
Alternative Payments for Standing Programs	-225	-196	-12.9	-1,209	-1,197	-1.0
Total	2,533	3,116	23.0	12,689	15,522	22.3
Subsidies and other transfers						
Agriculture	-8	66	n/a	145	459	216.6
Foreign Affairs	167	321	92.2	894	1,002	12.1
Health	87	81	-6.9	695	702	1.0
Human Resources Development	-95	30	n/a	397	424	6.8
Indian and Northern Development	337	339	0.6	1,889	1,984	5.0
Industry and Regional Development	211	211	0.0	705	786	11.5
Other	278	307	10.4	1,350	1,896	40.4
Total	977	1,355	38.7	6,075	7,253	19.4
Total transfer payments	7,148	8,055	12.7	36,126	40,561	12.3
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	85	140	64.7	545	595	9.2
Canada Mortgage and Housing Corporation	140	142	1.4	865	846	-2.2
Other	178	144	-19.1	878	876	-0.2
Total	403	426	5.7	2,288	2,317	1.3
Defence	1,097	1,177	7.3	4,865	5,620	15.5
All other departments and agencies	2,742	2,880	5.0	13,641	14,216	4.2
Total other program expenses	4,242	4,483	5.7	20,794	22,153	6.5
Total program expenses	11,390	12,538	10.1	56,920	62,714	10.2
Public debt charges	2,913	2,784	-4.4	14,609	14,103	-3.5
Total budgetary expenses	14,303	15,322	7.1	71,529	76,817	7.4

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	300	-272	4,622	6,833
Non-budgetary transactions				
Capital investing activities	-18	-136	-289	-117
Other investing activities	-196	176	-553	-1,155
Pension and other accounts	189	-448	-117	-1,688
Other activities				
Accounts payable, receivables, accruals and allowances	1,718	1,161	-8,785	-12,053
Foreign exchange activities	-427	-729	-148	1,540
Amortization of tangible capital assets	151	273	1,157	1,265
Total other activities	1,442	705	-7,776	-9,248
Total non-budgetary transactions	1,417	297	-8,735	-12,208
Net financial source/requirement	1,717	25	-4,113	-5,375

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	1,717	25	-4,113	-5,375
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,767	2,261	-4,665	1,383
Treasury bills	100	1,800	1,900	-1,800
Canada Savings Bonds	-55	-84	-238	-392
Other	-5	-1	-24	-142
Total	2,807	3,976	-3,027	-951
Foreign currency borrowings	49	-86	-1,084	-3,591
Total	2,856	3,890	-4,111	-4,542
Obligations related to capital leases	-6	14	-34	84
Net change in financing activities	2,850	3,904	-4,145	-4,458
Change in cash balance	4,567	3,929	-8,258	-9,833

Note: Totals may not sum due to rounding.

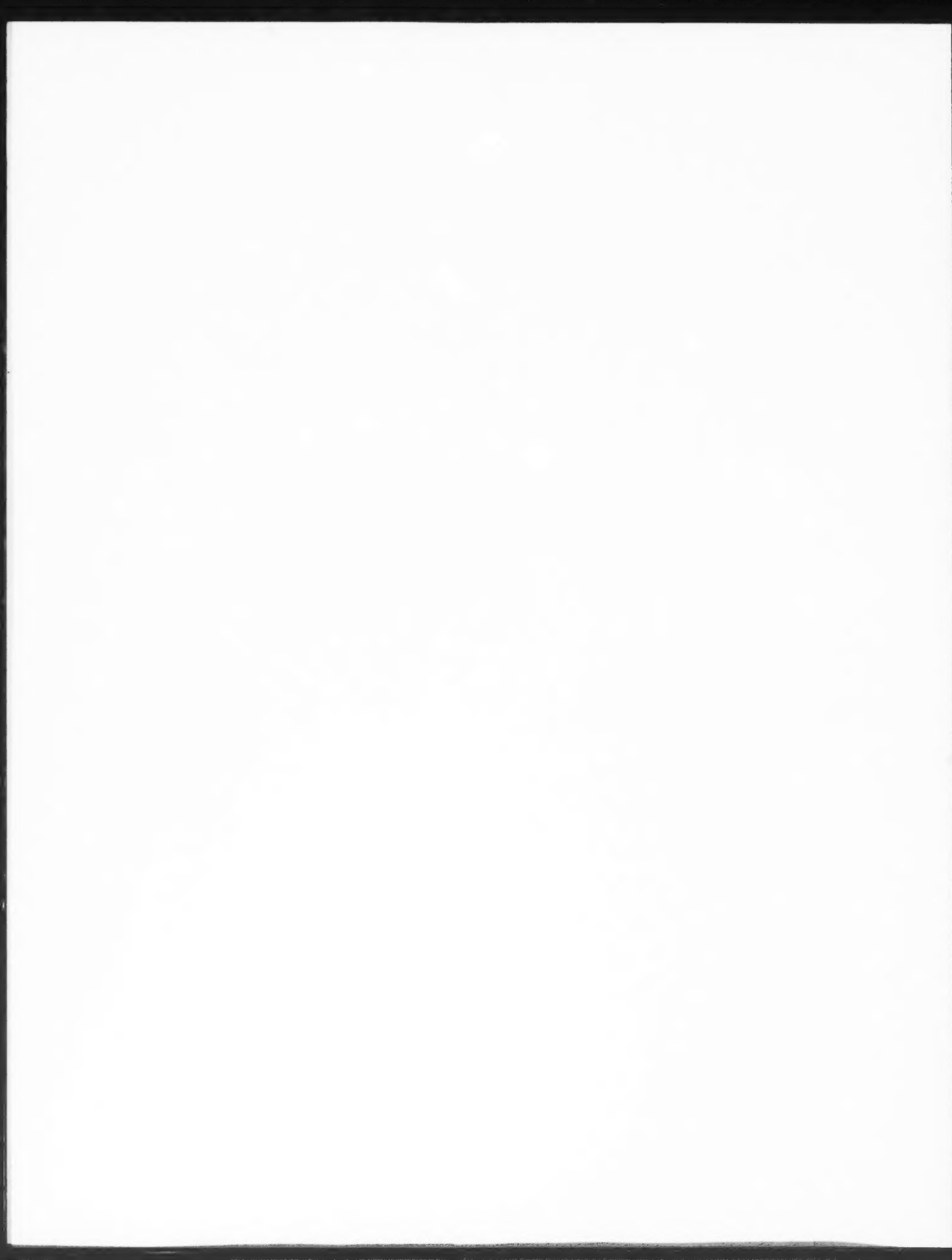
The Fiscal Monitor

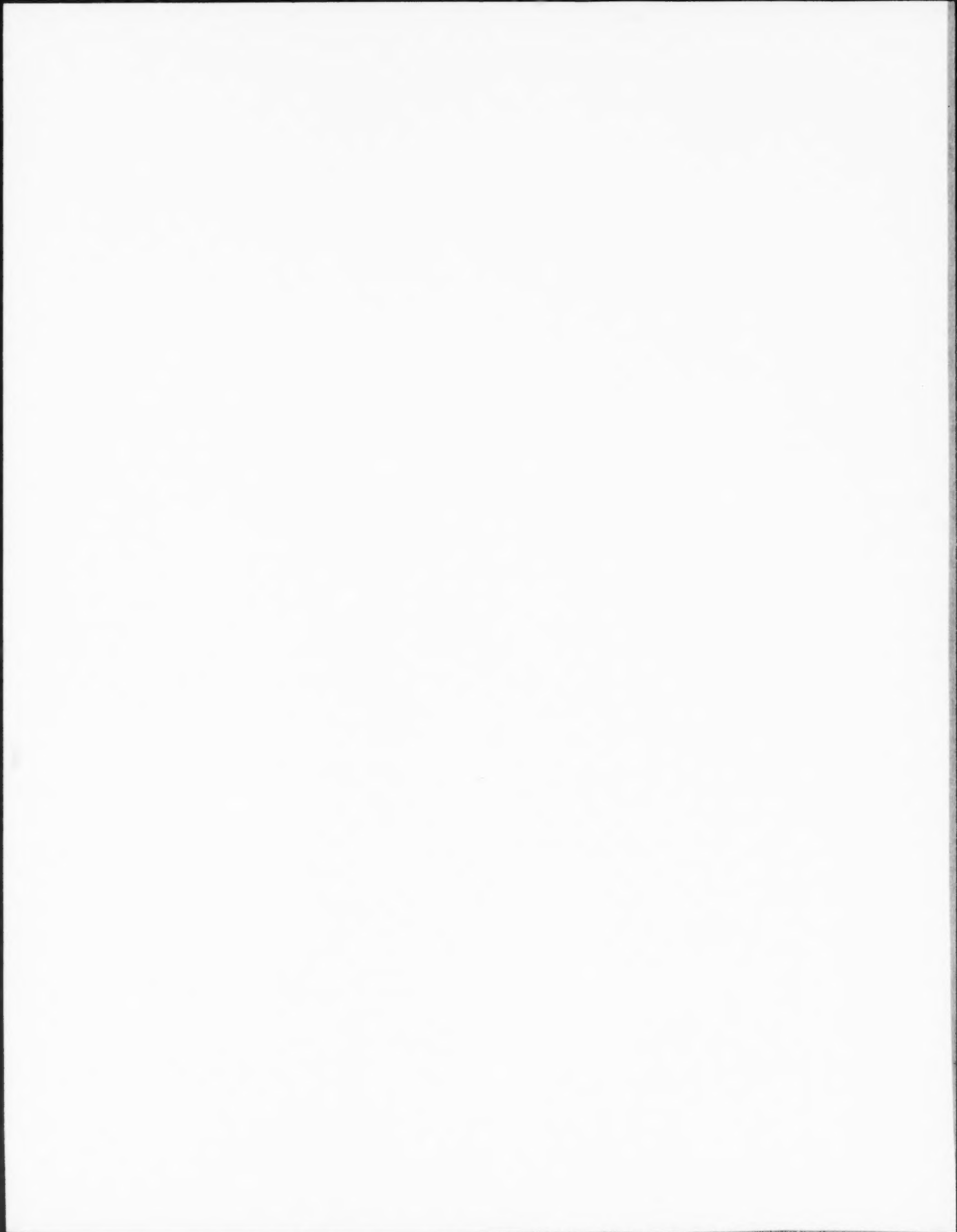
Table 6

Condensed statement of assets and liabilities

	March 31, 2005	August 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	90,473	74,485	-15,988
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	267,953	1,383
Treasury bills	127,199	125,399	-1,800
Canada Savings Bonds	19,080	18,688	-392
Other	3,393	3,251	-142
Subtotal	416,242	415,291	-951
Payable in foreign currencies	16,286	12,695	-3,591
Obligations related to capital leases	2,932	3,016	84
Total unmatured debt	435,460	431,002	-4,458
Pension and other accounts			
Public sector pensions	129,579	130,442	863
Other employee and veteran future benefits	41,549	41,924	375
Other pension and other accounts	8,680	5,754	-2,926
Total pension and other accounts	179,808	178,120	-1,688
Total interest-bearing debt	615,268	609,122	-6,146
Total liabilities	705,741	683,607	-22,134
Financial assets			
Cash and accounts receivable	76,281	62,513	-13,768
Foreign exchange accounts	40,871	39,331	-1,540
Loans, investments and advances (net of allowances)	33,860	35,015	1,155
Total financial assets	151,012	136,859	-14,153
Net debt	554,729	546,748	-7,981
Non-financial assets	54,866	53,718	-1,148
Federal debt (accumulated deficit)	499,863	493,030	-6,833

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.
 For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.
 Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
 October 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2005: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in September 2005, down \$2.4 billion from the surplus of \$3.0 billion reported in September 2004. The year-over-year decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada. As a result, budgetary revenues declined by \$1.2 billion, or 7.1 per cent. Excluding this transaction, underlying total revenues were \$1.4 billion or 9.5 per cent higher in September 2005 than in September 2004. Program expenses were \$1.3 billion or 11.5 per cent higher, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined \$0.1 billion.

April to September 2005: budgetary surplus of \$7.4 billion

For the first six months of the 2005–06 fiscal year (April to September), the budgetary surplus is estimated at \$7.4 billion, down \$0.2 billion from the \$7.6-billion surplus reported in the same period last year. Budgetary revenues were up \$6.3 billion or 6.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax revenues, dampened by a decline in other revenues, reflecting the gain from the sale of the Government's remaining shares in Petro-Canada in September 2004. The strong year-to-date growth in personal income tax revenues is due to higher source deductions from employment income. Higher corporate income tax revenues in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$7.1 billion or 10.4 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.6 billion lower.

These monthly financial results are only partial-year results. Caution should therefore be exercised in using these results to project the outcome for the full year. A complete update of the fiscal outlook for 2005–06 and future years is provided in the Economic and Fiscal Update.

September 2005

There was a budgetary surplus of \$0.6 billion in September 2005, compared to a surplus of \$3.0 billion reported during the same month last year.

Budgetary revenues totalled \$15.7 billion in September 2005, down \$1.2 billion or 7.1 per cent from September 2004. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada.

- Personal income tax revenues were up \$0.4 billion or 6.2 per cent due to higher deductions from employment income.
- Corporate income tax revenues increased by \$0.3 billion or 16.6 per cent, reflecting ongoing gains in corporate profitability and timing factors, as explained below.
- Excise taxes and duties were up \$0.5 billion or 15.1 per cent. Goods and services tax (GST) revenues increased 19.7 per cent as a result of higher gross receipts, due to timing factors which depressed receipts in September 2004.



The Fiscal Monitor

Customs import duties were up \$28 million, while sales and excise taxes were up \$42 million. Revenues from the Air Travellers Security Charge were down \$5 million.

- Employment insurance (EI) premiums were down slightly (2.0 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$2.6 billion. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain from the sale of the Government's remaining shares in Petro-Canada.

Program expenses totalled \$12.3 billion in September 2005, up \$1.3 billion or 11.5 per cent from September 2004.

Transfer payments were up \$0.6 billion or 8.6 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$86 million or 2.6 per cent. Elderly benefits increased 4.3 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments fell 1.4 per cent, primarily due to a decrease in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.6 billion or 22.7 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflects increased funding under the 2004 agreements on health care and equalization/TFF.
- Subsidies and other transfers decreased by 4.7 per cent, largely reflecting an adjustment for transactions related to prior months.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence.

On a year-over-year basis, these expenses were up \$0.7 billion, or 16.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges decreased by \$0.1 billion or 1.8 per cent due to both a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

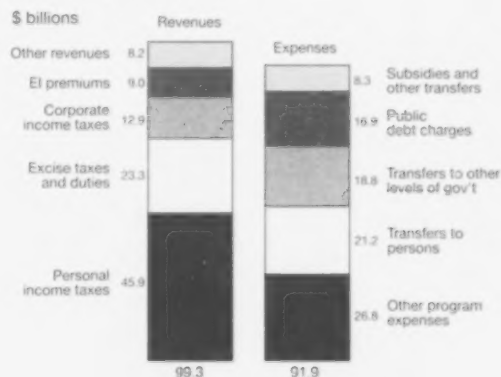
April to September 2005

In the first six months of 2005-06, there was a budgetary surplus of \$7.4 billion, down \$0.2 billion from the surplus of \$7.6 billion reported in the same period of 2004-05.

At \$99.3 billion, budgetary revenues were up \$6.3 billion or 6.8 per cent.

- Personal income tax revenues increased by \$3.6 billion, or 8.6 per cent, which is considerably higher than the estimated growth in wages and salaries of about 4 per cent during the period, reflecting the very strong year-over-year growth witnessed in the first four months of the year. The year-over-year increase is largely attributable to the growth in source deductions from employment income.

Revenues and expenses (April-September 2005)

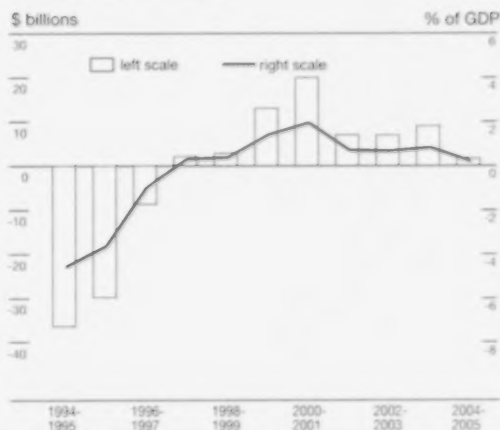


- Corporate income tax revenues were up \$2.7 billion, or 25.9 per cent over the same period last year, or more than double the estimated growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through September 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005-06.

- Excise taxes and duties increased by \$1.4 billion or 6.3 per cent. GST revenues increased by \$1.3 billion or 8.3 per cent. Customs import duties were up 6.5 per cent. Sales and excise taxes were up marginally (0.7 per cent) while the Air Travellers Security Charge was down 7.2 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 1.0 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$1.9 billion or 23.2 per cent, reflecting the one-time gain from the sale of the Government's remaining shares in Petro-Canada in September 2004.

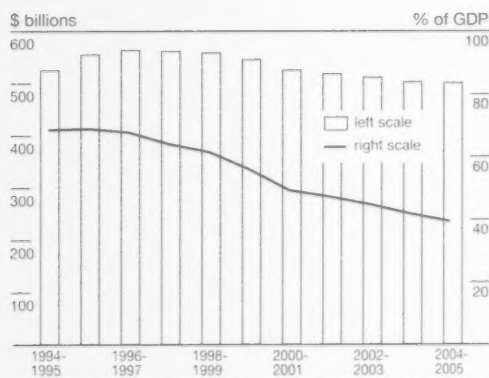
On a year-over-year basis, program expenses in the April to September 2005 period were \$75.0 billion, up \$7.1 billion or 10.4 per cent over the same period of 2004-05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.6 billion.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$5.1 billion or 11.7 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$3.5 billion, or 23.2 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFE.
- Subsidies and other transfers increased by 13.8 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 8.1 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.2 per cent.

Public debt charges were down 3.2 per cent compared to the same period last year due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$2.8 billion for April to September 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out.

This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April-to-September period, up \$1.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$7.4 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$2.8 billion in the first six months of 2005–06, up \$1.9 billion from the same period last year.

Net financing activities down \$11.6 billion

The Government's market debt was down \$11.6 billion by the end of September 2005. To finance this reduction of market debt and the financial requirement of \$2.8 billion, the Government reduced its cash balances by \$14.4 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of September stood at \$2.7 billion.

Table 1

Summary statement of transactions

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,868	15,669	93,018	99,321
Expenses				
Program expenses	-11,014	-12,279	-67,934	-75,003
Public debt charges	-2,866	-2,814	-17,476	-16,917
Budgetary balance (deficit/surplus)	2,988	576	7,608	7,401
Non-budgetary transactions	155	1,960	-8,581	-10,237
Financial source/requirement	3,143	2,536	-973	-2,836
Net change in financing activities	-6,431	-7,124	-10,576	-11,582
Net change in cash balances	-3,288	-4,588	-11,549	-14,418
Cash balance at end of period			5,701	2,702

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	September			April to September		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,979	7,413	6.2	42,319	45,949	8.6
Corporate income tax	1,648	1,921	16.6	10,220	12,870	25.9
Other income tax revenue	181	355	96.1	1,500	1,930	28.7
Total income tax	8,808	9,689	10.0	54,039	60,749	12.4
Excise taxes and duties						
Goods and services tax	2,369	2,835	19.7	15,288	16,550	8.3
Customs import duties	277	305	10.1	1,581	1,683	6.5
Sales and excise taxes	824	866	5.1	4,871	4,906	0.7
Air Travellers Security Charge	35	30	-14.3	194	180	-7.2
Total excise taxes and duties	3,505	4,036	15.1	21,934	23,319	6.3
Total tax revenues	12,313	13,725	11.5	75,973	84,068	10.7
Employment insurance premiums	1,163	1,140	-2.0	8,910	9,003	1.0
Other revenues	3,392	804	-76.3	8,135	6,250	-23.2
Total budgetary revenues	16,868	15,669	-7.1	93,018	99,321	6.8

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	September		Change	April to September		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,315	2,415	4.3	13,752	14,393	4.7
Employment insurance benefits	1,011	997	-1.4	6,935	6,804	-1.9
Total	3,326	3,412	2.6	20,687	21,197	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		6,325	9,500	
Canada Social Transfer	652	685		3,912	4,113	
Health Reform Transfer	125	0		750	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	11,012	13,613	23.6
Fiscal transfers	927	1,011	9.1	5,645	6,403	13.4
Canada's cities and communities	0	69	n/a	0	181	n/a
Alternative Payments for Standing Programs	-225	-239	6.2	-1,433	-1,436	0.2
Total	2,533	3,109	22.7	15,224	18,761	23.2
Subsidies and other transfers						
Agriculture	88	81	-8.0	232	540	132.8
Foreign Affairs	129	249	93.0	1,023	1,246	21.8
Health	179	229	27.9	874	932	6.6
Human Resources Development	102	137	34.3	499	561	12.4
Indian and Northern Development	302	325	7.6	2,192	2,310	5.4
Industry and Regional Development	122	132	8.2	827	918	11.0
Other	276	-11	-104.0	1,625	1,771	9.0
Total	1,198	1,142	-4.7	7,272	8,278	13.8
Total transfer payments	7,057	7,663	8.6	43,183	48,236	11.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	109	73	-33.0	654	668	2.1
Canada Mortgage and Housing Corporation	170	184	8.2	1,035	1,030	-0.5
Other	116	112	-3.4	994	990	-0.4
Total	395	369	-6.6	2,683	2,688	0.2
Defence	1,090	1,435	31.7	5,955	7,054	18.5
All other departments and agencies	2,472	2,812	13.8	16,113	17,025	5.7
Total other program expenses	3,957	4,616	16.7	24,751	26,767	8.1
Total program expenses	11,014	12,279	11.5	67,934	75,003	10.4
Public debt charges	2,866	2,814	-1.8	17,476	16,917	-3.2
Total budgetary expenses	13,880	15,093	8.7	85,410	91,920	7.6

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,988	576	7,608	7,401
Non-budgetary transactions				
Capital investing activities	-180	-613	-471	-730
Other investing activities	-295	-925	-847	-2,080
Pension and other accounts	-239	807	-355	-881
Other activities				
Accounts payable, receivables, accruals and allowances	841	2,065	-7,945	-9,977
Foreign exchange activities	-161	344	-309	1,884
Amortization of tangible capital assets	189	282	1,346	1,547
Total other activities	869	2,691	-6,908	-6,546
Total non-budgetary transactions	155	1,960	-8,581	-10,237
Net financial source/requirement	3,143	2,536	-973	-2,836

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	3,143	2,536	-973	-2,836
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,813	-4,461	-9,478	-3,078
Treasury bills	-1,500	-2,600	400	-4,400
Canada Savings Bonds	-30	-36	-268	-429
Other	-1	-26	-25	-168
Total	-6,344	-7,123	-9,371	-8,075
Foreign currency borrowings	-83	8	-1,167	-3,583
Total	-6,427	-7,115	-10,538	-11,658
Obligations related to capital leases	-4	-9	-38	76
Net change in financing activities	-6,431	-7,124	-10,576	-11,582
Change in cash balance	-3,288	-4,588	-11,549	-14,418

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2005	September 30, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	75,284	-15,189
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	263,492	-3,078
Treasury bills	127,199	122,799	-4,400
Canada Savings Bonds	19,080	18,651	-429
Other	3,393	3,225	-168
Subtotal	416,242	408,167	-8,075
Payable in foreign currencies	16,286	12,703	-3,583
Obligations related to capital leases	2,932	3,008	76
Total unmatured debt	435,460	423,878	-11,582
Pension and other accounts			
Public sector pensions	129,579	130,721	1,142
Other employee and veteran future benefits	41,549	42,329	780
Other pension and other accounts	8,680	5,877	-2,803
Total pension and other accounts	179,808	178,927	-881
Total interest-bearing debt	615,268	602,805	-12,463
Total liabilities	705,741	678,089	-27,652
Financial assets			
Cash and accounts receivable	76,281	56,651	-19,630
Foreign exchange accounts	40,871	38,987	-1,884
Loans, investments and advances (net of allowances)	33,860	35,940	2,080
Total financial assets	151,012	131,578	-19,434
Net debt	554,729	546,511	-8,218
Non-financial assets	54,866	54,049	-817
Federal debt (accumulated deficit)	499,863	492,462	-7,401

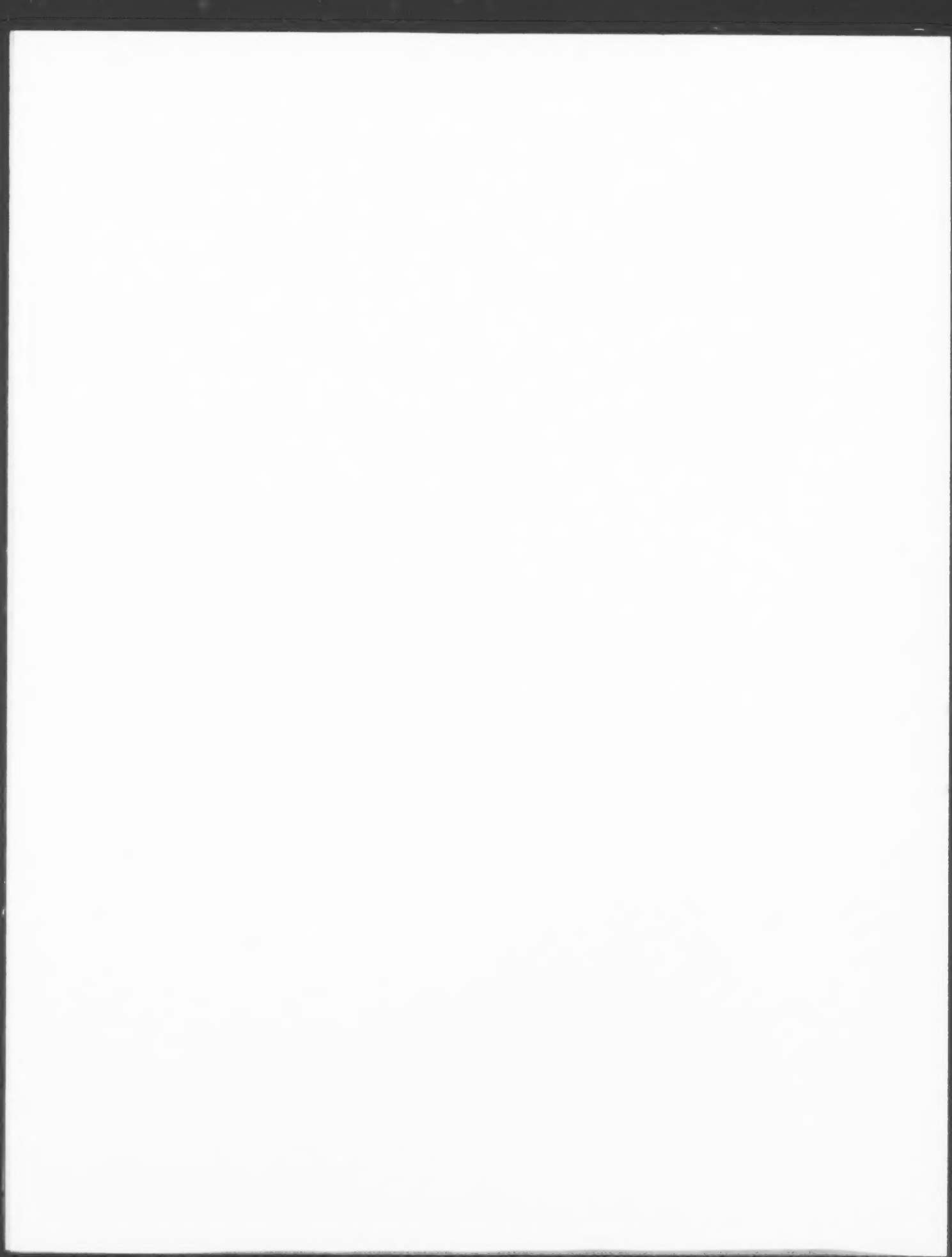
For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

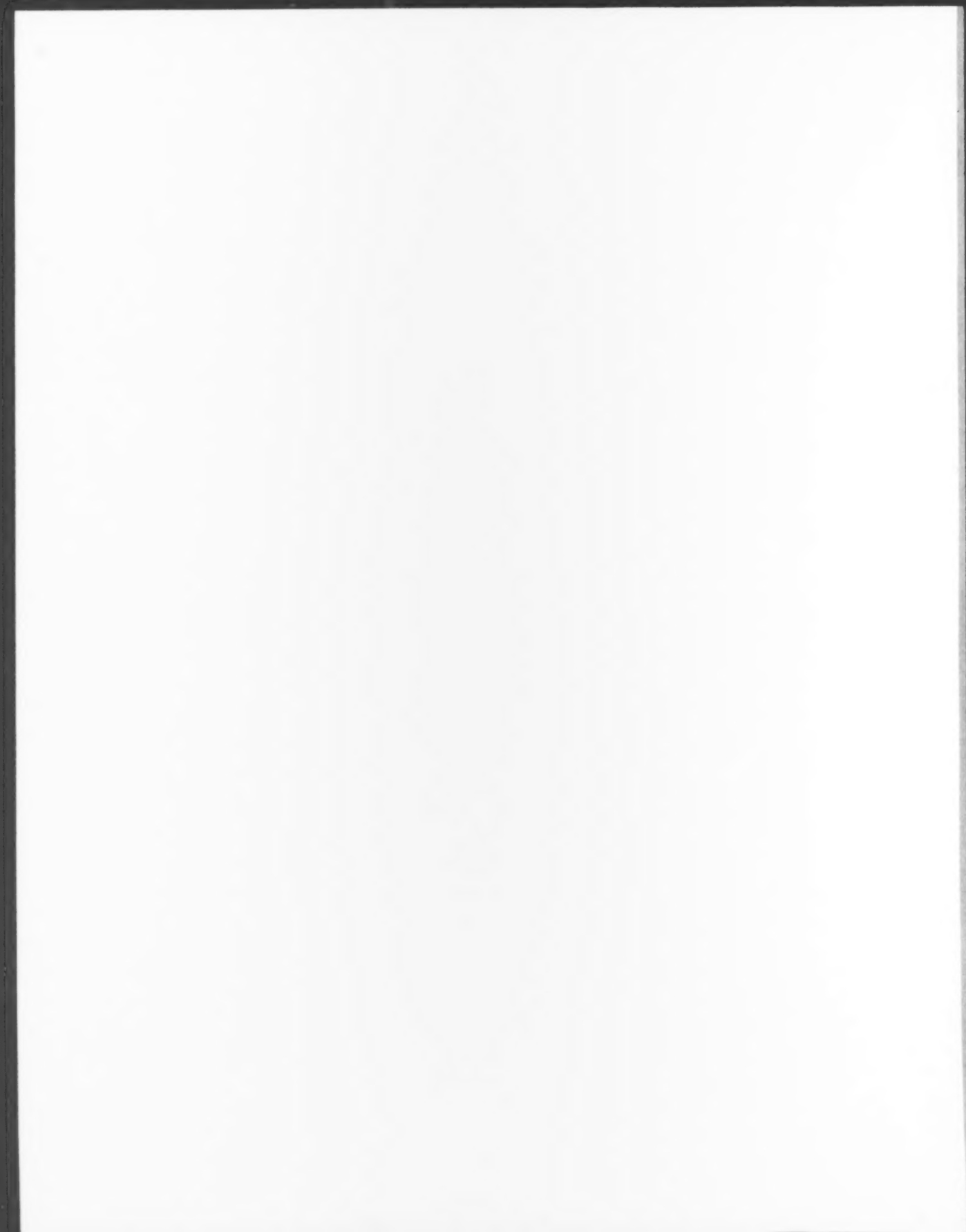
For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

November 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2005: budgetary surplus of \$2.1 billion

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004. Total budgetary revenues rose \$1.8 billion or 11.6 per cent, reflecting strong gains in personal income tax and goods and services tax (GST) revenues, offset somewhat by a decline in corporate income tax revenue. Personal income tax receipts rose 19.9 per cent in October, reflecting timing factors that will unwind in November 2005. GST receipts increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions in Quebec which affected GST collections in that province. Program expenses were up \$0.7 billion or 6.1 per cent, primarily reflecting higher transfer payments to provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased slightly in October.

April to October 2005: budgetary surplus of \$9.5 billion

For the first seven months of the 2005–06 fiscal year (April to October), the budgetary surplus is estimated at \$9.5 billion, up \$0.8 billion from the same period of 2004–05. Budgetary revenues were up \$8.1 billion or 7.5 per cent, with gains recorded in most major revenue categories. Program expenses were up \$7.8 billion or 9.8 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.5 billion lower.

These monthly financial results are only partial-year results. For example, they do not reflect proposed tax reductions for 2005–06, which total \$5.3 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.

October 2005

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004.

Budgetary revenues rose \$1.8 billion, or 11.6 per cent, to \$17.2 billion. Strong gains were posted in personal income tax and GST receipts.

- Personal income tax revenues were up \$1.4 billion or 19.9 per cent, reflecting timing factors that will unwind in the November 2005 revenue estimate. In October 2005 there were a larger number of payroll deductions processed compared to the same month last year, and some payroll deductions pertaining to September 2005 were processed in October.
- Corporate income tax revenues fell \$0.3 billion or 12.4 per cent. The decline reflects the significant jump in corporate receipts in October 2004, related to the clearance of a processing backlog that resulted from last year's public sector labour disruptions.
- Other income tax receipts—withholdings from non-residents—were up 52.8 per cent in October, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability this year. This revenue source can be volatile on a monthly basis.



The Fiscal Monitor

- Excise taxes and duties were up \$0.7 billion, or 18.9 per cent. GST revenues increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions at the Ministère du Revenu du Québec, which administers the GST in Quebec on behalf of the federal government. Customs import duties were up \$78 million, while sales and excise taxes were down \$50 million. Revenues from the Air Travellers Security Charge were down \$22 million.
- Employment insurance (EI) premiums declined 2.6 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion. Other revenues are volatile on a monthly basis.

Program expenses in October 2005 were \$12.3 billion, up \$0.7 billion or 6.1 per cent from October 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.6 billion or 8.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$87 million, or 2.5 per cent. Elderly benefits increased 2.8 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments increased 1.8 per cent, reflecting an increase in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.7 billion, or 26.6 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers decreased by 11.3 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.1 billion, or 2.0 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges increased slightly.

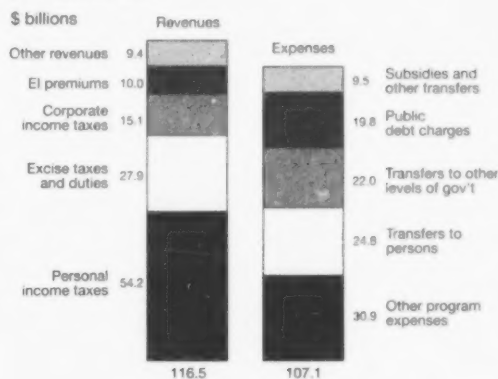
April to October 2005

In the first seven months of the 2005–06 fiscal year, there was a budgetary surplus of \$9.5 billion, up \$0.8 billion from the same period of 2004–05.

Budgetary revenues, at \$116.5 billion, were up \$8.1 billion or 7.5 per cent.

- Personal income tax revenues increased by \$5.0 billion or 10.2 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5.3 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income. In addition, as noted

Revenues and expenses
(April–October 2005)



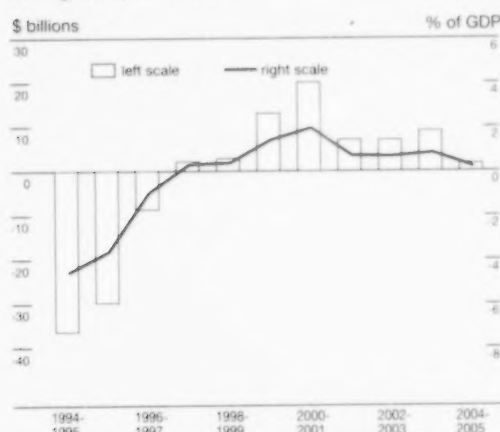
above, some of the year-over-year increase is due to timing factors, which should unwind in future months, thereby bringing the growth in receipts more in line with the growth in the applicable tax base.

- Corporate income tax revenues were up \$2.3 billion or 18.4 per cent. This gain is due in part to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through October 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005-06.

- Excise taxes and duties increased by \$2.1 billion or 8.2 per cent. GST revenues increased \$2.0 billion, or 11.0 per cent, reflecting strong growth in domestic gross receipts, which were up 10.2 per cent, somewhat above the growth rate of retail sales of 7.3 per cent over the same period. Customs import duties were up 9.9 per cent. Sales and excise taxes were down marginally (0.2 per cent) while the Air Travellers Security Charge was down 14.9 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.7 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$2.0 billion or 22.2 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

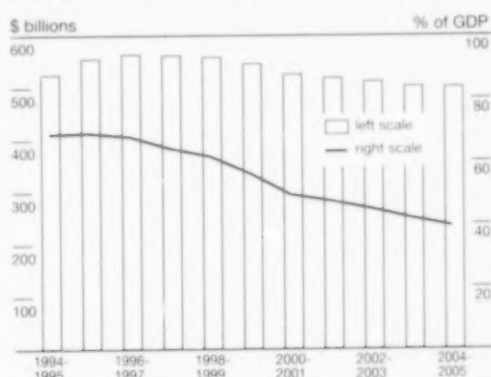
Program expenses in the April to October 2005 period were \$87.3 billion, up \$7.8 billion or 9.8 per cent over the same period of 2004-05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$5.7 billion, or 11.2 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.4 per cent while EI benefits were down 1.4 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004-05.
- Transfers to other levels of government were up \$4.2 billion or 23.7 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFE.
- Subsidies and other transfers increased by 9.7 per cent, reflecting the impact of measures from recent budgets as well as an adjustment for transactions related to prior months.

Other program expenses increased by 7.3 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.3 per cent.

Public debt charges were down 2.5 per cent compared to the same period last year due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$1.6 billion for April to October 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement

resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$11.1 billion in the April-to-October period, up \$3.7 billion from the requirement in the same period of 2004-05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$9.5 billion and a net requirement of \$11.1 billion from non-budgetary transactions, there was a financial requirement of \$1.6 billion in the first seven months of 2005-06 compared to a financial source of \$1.2 billion in the same period last year.

Net financing activities down \$11.9 billion

The Government's market debt was down \$11.9 billion by the end of October 2005. To finance this reduction of market debt and the financial requirement of \$1.6 billion, the Government reduced its cash balances by \$13.5 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$3.6 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	15,409	17,194	108,429	116,514
Expenses				
Program expenses	-11,560	-12,261	-79,495	-87,264
Public debt charges	-2,834	-2,881	-20,309	-19,799
Budgetary balance (deficit/surplus)	1,015	2,052	8,625	9,451
Non-budgetary transactions	1,195	-816	-7,388	-11,056
Financial source/requirement	2,210	1,236	1,237	-1,605
Net change in financing activities	1,610	-362	-8,967	-11,944
Net change in cash balances	3,820	874	-7,730	-13,549
Cash balance at end of period			9,521	3,573

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	October			April to October		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,910	8,282	19.9	49,229	54,231	10.2
Corporate income tax	2,509	2,198	-12.4	12,729	15,069	18.4
Other income tax revenue	269	411	52.8	1,769	2,341	32.3
Total income tax	9,688	10,891	12.4	63,727	71,641	12.4
Excise taxes and duties						
Goods and services tax	2,726	3,440	26.2	18,015	19,991	11.0
Customs import duties	237	315	32.9	1,818	1,998	9.9
Sales and excise taxes	804	754	-6.2	5,675	5,661	-0.2
Air Travellers Security Charge	48	26	-45.8	242	206	-14.9
Total excise taxes and duties	3,815	4,535	18.9	25,750	27,856	8.2
Total tax revenues	13,503	15,426	14.2	89,477	99,497	11.2
Employment insurance premiums	1,031	1,004	-2.6	9,940	10,006	0.7
Other revenues	875	764	-12.7	9,012	7,011	-22.2
Total budgetary revenues	15,409	17,194	11.6	108,429	116,514	7.5

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	October			April to October		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,359	2,426	2.8	16,111	16,818	4.4
Employment insurance benefits	1,116	1,136	1.8	8,051	7,940	-1.4
Total	3,475	3,562	2.5	24,162	24,758	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		7,379	11,083	
Canada Social Transfer	652	685		4,565	4,798	
Health Reform Transfer	125	0		875	0	
Canada Health and Social Transfer	-25	0		0	0	
Total	1,806	2,268	25.6	12,819	15,881	23.9
Fiscal transfers	926	1,044	12.7	6,571	7,447	13.3
Canada's cities and communities	0	213	n/a	0	394	n/a
Alternative Payments for Standing Programs	-139	-242	74.1	-1,573	-1,678	6.7
Total	2,593	3,283	26.6	17,817	22,044	23.7
Subsidies and other transfers						
Agriculture	89	65	-27.0	321	605	88.5
Foreign Affairs	203	-42	-120.7	1,225	1,203	-1.8
Health	105	99	-5.7	979	1,030	5.2
Human Resources Development	7	129	1,742.9	506	689	36.2
Indian and Northern Development	348	367	5.5	2,539	2,676	5.4
Industry and Regional Development	208	211	1.4	1,035	1,129	9.1
Other	448	421	-6.1	2,074	2,192	5.7
Total	1,408	1,250	-11.3	8,679	9,524	9.7
Total transfer payments	7,476	8,095	8.3	50,658	56,326	11.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	65	100	53.8	719	768	6.8
Canada Mortgage and Housing Corporation	165	164	-0.6	1,200	1,194	-0.5
Other	136	104	-23.5	1,127	1,094	-2.9
Total	366	368	0.5	3,046	3,056	0.3
Defence	1,075	1,236	15.0	7,030	8,291	17.9
All other departments and agencies	2,643	2,562	-3.1	18,761	19,591	4.4
Total other program expenses	4,084	4,166	2.0	28,837	30,938	7.3
Total program expenses	11,560	12,261	6.1	79,495	87,264	9.8
Public debt charges	2,834	2,881	1.7	20,309	19,799	-2.5
Total budgetary expenses	14,394	15,142	5.2	99,804	107,063	7.3

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,015	2,052	8,625	9,451
Non-budgetary transactions				
Capital investing activities	-185	-249	-654	-978
Other investing activities	-430	-357	-1,278	-2,437
Pension and other accounts	-1,308	349	-1,665	-534
Other activities				
Accounts payable, receivables, accruals and allowances	2,384	217	-5,563	-9,762
Foreign exchange activities	487	-1,026	178	858
Amortization of tangible capital assets	247	250	1,594	1,797
Total other activities	3,118	-559	-3,791	-7,107
Total non-budgetary transactions	1,195	-816	-7,388	-11,056
Net financial source/requirement	2,210	1,236	1,237	-1,605

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	2,210	1,236	1,237	-1,605
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	552	-1,585	-8,926	-4,663
Treasury bills	1,400	1,000	1,800	-3,400
Canada Savings Bonds	-79	-68	-347	-497
Other	-1	-13	-26	-181
Total	1,872	-666	-7,499	-8,741
Foreign currency borrowings	-260	302	-1,428	-3,281
Total	1,612	-364	-8,927	-12,022
Obligations related to capital leases	-2	2	-40	78
Net change in financing activities	1,610	-362	-8,967	-11,944
Change in cash balance	3,820	874	-7,730	-13,549

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2005	October 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	90,473	78,779	-11,694
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,907	-4,663
Treasury bills	127,199	123,799	-3,400
Canada Savings Bonds	19,080	18,583	-497
Other	3,393	3,212	-181
Subtotal	416,242	407,501	-8,741
Payable in foreign currencies	16,286	13,005	-3,281
Obligations related to capital leases	2,932	3,010	78
Total unmaturing debt	435,460	423,516	-11,944
Pension and other accounts			
Public sector pensions	129,579	130,903	1,324
Other employee and veteran future benefits	41,549	42,458	909
Other pension and other accounts	8,680	5,913	-2,767
Total pension and other accounts	179,808	179,274	-534
Total interest-bearing debt	615,268	602,790	-12,478
Total liabilities	705,741	681,569	-24,172
Financial assets			
Cash and accounts receivable	76,281	60,800	-15,481
Foreign exchange accounts	40,871	40,013	-858
Loans, investments and advances (net of allowances)	33,860	36,297	2,437
Total financial assets	151,012	137,110	-13,902
Net debt	554,729	544,459	-10,270
Non-financial assets	54,866	54,047	-819
Federal debt (accumulated deficit)	499,863	490,412	-9,451

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

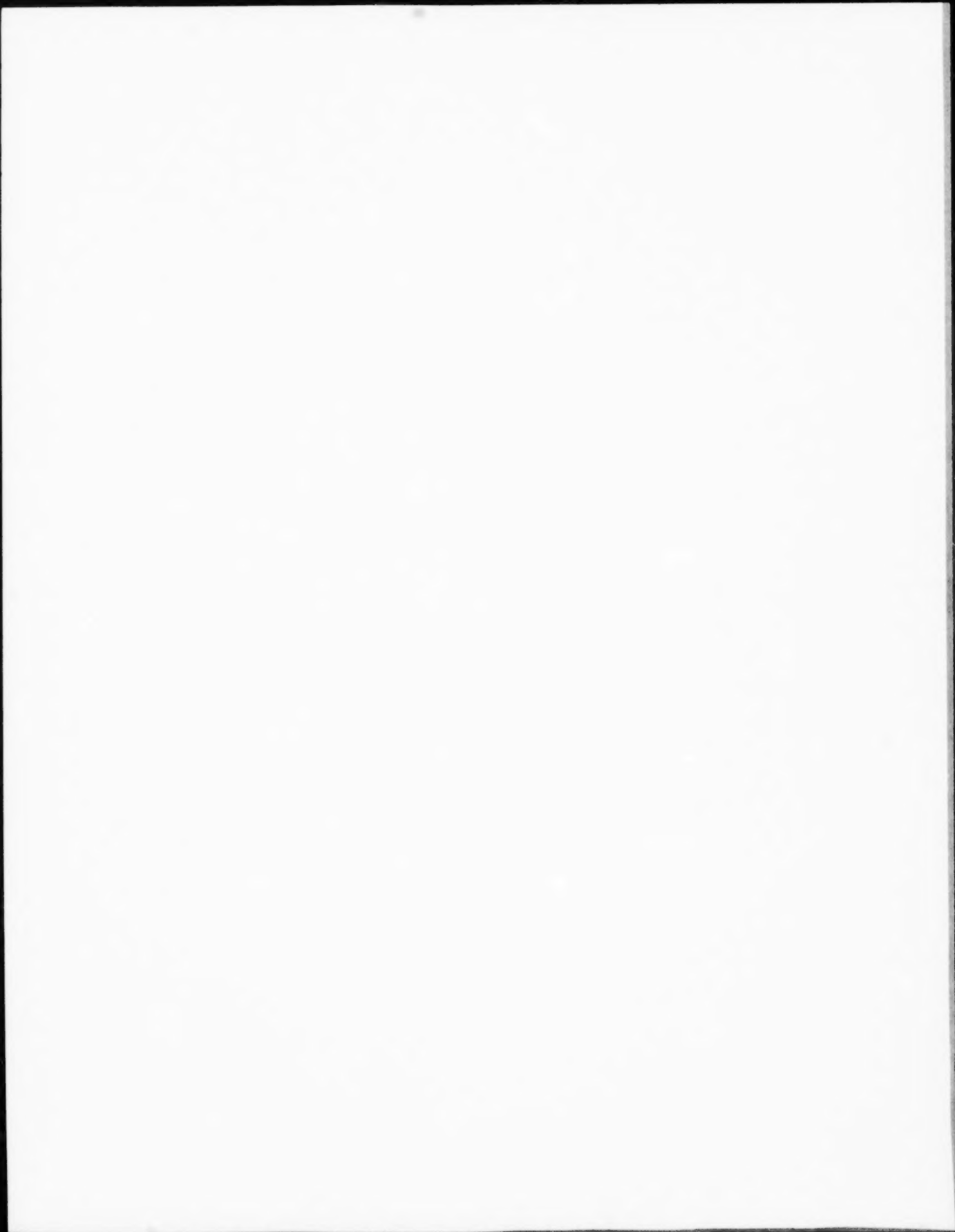
For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

December 2005





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2005: budgetary deficit of \$3.1 billion

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a surplus of \$1.7 billion reported in November 2004. *This deficit entirely reflects an adjustment of \$3.7 billion pertaining to the first 11 months of 2005 that was made to the November results, related to the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that were announced in the November 2005 Economic and Fiscal Update.* Absent these tax measures, there was an underlying surplus of \$0.5 billion in November 2005, down \$1.2 billion from the \$1.7-billion surplus reported in November 2004.

April to November 2005: budgetary surplus of \$6.3 billion

For the first eight months of the 2005–06 fiscal year (April to November), the budgetary surplus is estimated at \$6.3 billion, \$4.0 billion lower than the \$10.3-billion surplus reported in the same period of 2004–05. The decline in the surplus through November reflects the impact of the inclusion in the November results of \$3.7 billion in personal income tax measures that relate to the first 11 months of 2005. Budgetary revenues were up \$4.5 billion, or 3.6 per cent. Program expenses were up \$8.9 billion, or 9.8 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.4 billion lower.

These monthly financial results are only partial-year results. In particular, they do not reflect the remaining cost of the tax cuts announced in the November 2005 Economic and Fiscal Update for 2005–06, amounting to \$1.4 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.

November 2005

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a \$1.7-billion surplus reported in November 2004.

Budgetary revenues fell by \$3.6 billion, or 21.9 per cent, to \$12.7 billion.

- Personal income tax revenues declined \$3.6 billion, reflecting the inclusion in the November results of the majority of the costs of those personal income tax measures announced in the November 2005 *Economic and Fiscal Update* that pertain to the 2005 taxation year.
- Corporate income tax revenues rose \$0.3 billion, or 14.7 per cent, reflecting ongoing profitability in the corporate sector.
- Other income tax receipts—withholdings from non-residents—were up 44.1 per cent in November, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability in 2005. This revenue source can be volatile on a monthly basis.



Department of Finance
Canada

Ministère des Finances
Canada

Canada

The Fiscal Monitor

- Excise taxes and duties fell \$0.3 billion, or 7.1 per cent. Goods and services tax (GST) revenues declined 9.8 per cent, reflecting relatively modest growth in gross GST receipts and strong growth in GST refunds. Customs import duties were up \$60 million, while sales and excise taxes were down \$49 million. Revenues from the Air Travellers Security Charge were down \$3 million.
- Employment insurance (EI) premiums declined 3.9 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 1.5 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in November 2005 were \$12.9 billion, up \$1.2 billion, or 10.0 per cent, from November 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.8 billion, or 10.8 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$14 million, or 0.4 per cent. Elderly benefits increased 3.4 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 5.9 per cent, reflecting a decline in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.5 billion, or 21.1 per cent. The increase in federal transfers in support of health and

other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFE.

- Subsidies and other transfers increased by \$0.3 billion, or 17.4 per cent. This component is volatile on a monthly basis.

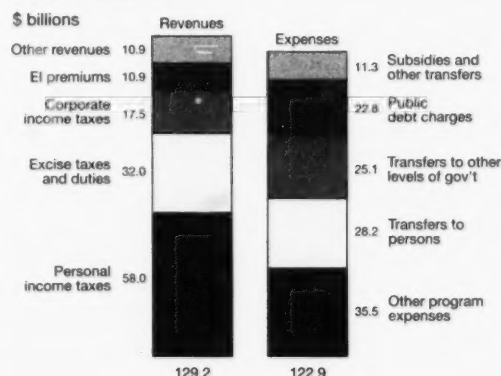
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.4 billion, or 8.6 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges increased by \$0.1 billion, or 2.8 per cent, due to an increase in the average effective interest rate on the debt.

April to November 2005

In the first eight months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.3 billion, \$4.0 billion below the \$10.3-billion surplus reported in the same period of 2004–05.

Revenues and expenses
(April–November 2005)



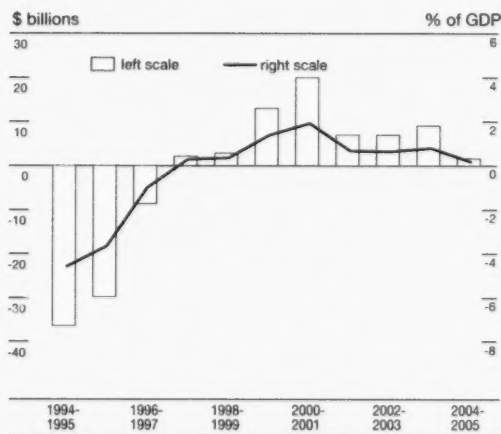
Budgetary revenues were up \$4.5 billion, or 3.6 per cent, to \$129.2 billion.

- Personal income tax revenues rose \$1.4 billion, or 2.4 per cent, reflecting the inclusion in the November results of the above-mentioned tax measures.
- Corporate income tax revenues were up \$2.6 billion, or 17.9 per cent. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004-05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004-05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through November 2004 reflecting 2003 liabilities, the year-to-date

growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005-06.

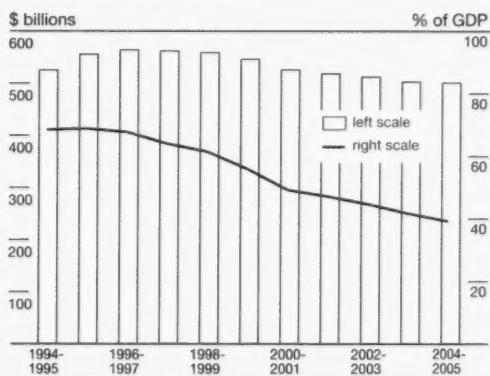
- Excise taxes and duties increased by \$1.8 billion, or 5.9 per cent. GST revenues increased \$1.7 billion, or 7.7 per cent, broadly consistent with the growth rate of retail sales of 6.6 per cent over the same period. Customs import duties were up 11.5 per cent. Sales and excise taxes were down 1.0 per cent while the Air Travellers Security Charge was down 14.4 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.3 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$2.0 billion, or 19.4 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

On a year-over-year basis, program expenses in the April to November 2005 period were \$100.1 billion, up \$8.9 billion, or 9.8 per cent, from the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.4 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$6.5 billion, or 11.1 per cent.

- Transfers to persons advanced by 2.2 per cent. Elderly benefits were up 4.3 per cent while EI benefits were down 1.9 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$4.8 billion, or 23.4 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 10.9 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 7.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.9 per cent.

Public debt charges were down 1.9 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$1.7 billion for April to November 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the

difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$8.0 billion in the April-to-November period, up \$4.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$6.3 billion and a net requirement of \$8.0 billion from non-budgetary transactions, there was a financial requirement of \$1.7 billion in the first eight months of 2005–06 compared to a financial source of \$7.1 billion in the same period of 2004–05.

Net financing activities down \$8.5 billion

The Government's market debt was down \$8.5 billion by the end of November 2005. To finance this reduction of market debt and the financial requirement of \$1.7 billion, the Government reduced its cash balances by \$10.1 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$7.0 billion.

The Fiscal Monitor

Table 1
Summary statement of transactions

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,282	12,716	124,710	129,228
Expenses				
Program expenses	-11,686	-12,856	-91,179	-100,120
Public debt charges	-2,909	-2,990	-23,219	-22,789
Budgetary balance (deficit/surplus)	1,687	-3,130	10,312	6,319
Non-budgetary transactions	4,149	3,070	-3,240	-7,981
Financial source/requirement	5,836	-60	7,072	-1,662
Net change in financing activities	897	3,457	-8,068	-8,486
Net change in cash balances	6,733	3,397	-996	-10,148
Cash balance at end of period			16,254	6,974

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	November			April to November		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,359	3,718	-49.5	56,589	57,950	2.4
Corporate income tax	2,087	2,393	14.7	14,817	17,462	17.9
Other income tax revenue	238	343	44.1	2,008	2,684	33.7
Total income tax	9,684	6,454	-33.4	73,414	78,096	6.4
Excise taxes and duties						
Goods and services tax	3,331	3,005	-9.8	21,346	22,997	7.7
Customs import duties	269	329	22.3	2,087	2,327	11.5
Sales and excise taxes	845	796	-5.8	6,520	6,458	-1.0
Air Travellers Security Charge	28	25	-10.7	270	231	-14.4
Total excise taxes and duties	4,473	4,155	-7.1	30,223	32,013	5.9
Total tax revenues	14,157	10,609	-25.1	103,637	110,109	6.2
Employment insurance premiums	932	896	-3.9	10,872	10,902	0.3
Other revenues	1,193	1,211	1.5	10,201	8,217	-19.4
Total budgetary revenues	16,282	12,716	-21.9	124,710	129,228	3.6

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	November		Change	April to November		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,353	2,433	3.4	18,465	19,251	4.3
Employment insurance benefits	1,116	1,050	-5.9	9,167	8,990	-1.9
Total	3,469	3,483	0.4	27,632	28,241	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		8,433	12,667	
Canada Social Transfer	652	685		5,217	5,483	
Health Reform Transfer	125	0		1,000	0	
Canada Health and Social Transfer	23	0		23	0	
Total	1,854	2,268	22.3	14,673	18,150	23.7
Fiscal transfers	876	1,045	19.3	7,446	8,492	14.0
Canada's cities and communities	0	0	n/a	0	394	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,783	-1,939	8.7
Total	2,520	3,052	21.1	20,336	25,097	23.4
Subsidies and other transfers						
Agriculture	251	133	-47.0	572	738	29.0
Foreign Affairs	158	181	14.6	1,383	1,385	0.1
Health	194	173	-10.8	1,172	1,203	2.6
Human Resources Development	216	129	-40.3	722	818	13.3
Indian and Northern Development	352	562	59.7	2,891	3,239	12.0
Industry and Regional Development	143	118	-17.5	1,178	1,247	5.9
Other	194	475	144.8	2,268	2,666	17.5
Total	1,508	1,771	17.4	10,186	11,296	10.9
Total transfer payments	7,497	8,306	10.8	58,154	64,634	11.1
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	54	100	85.2	773	868	12.3
Canada Mortgage and Housing Corporation	140	172	22.9	1,340	1,366	1.9
Other	117	63	-46.2	1,244	1,154	-7.2
Total	311	335	7.7	3,357	3,388	0.9
Defence	1,080	1,249	15.6	8,111	9,540	17.6
All other departments and agencies	2,798	2,966	6.0	21,557	22,558	4.6
Total other program expenses	4,189	4,550	8.6	33,025	35,486	7.5
Total program expenses	11,686	12,856	10.0	91,179	100,120	9.8
Public debt charges	2,909	2,990	2.8	23,219	22,789	-1.9
Total budgetary expenses	14,595	15,846	8.6	114,398	122,909	7.4

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,687	-3,130	10,312	6,319
Non-budgetary transactions				
Capital investing activities	-180	-196	-836	-1,171
Other investing activities	-156	-294	-1,434	-2,731
Pension and other accounts	-432	-16	-2,100	-549
Other activities				
Accounts payable, receivables, accruals and allowances	827	3,655	-4,733	-6,107
Foreign exchange activities	3,866	-314	4,045	544
Amortization of tangible capital assets	224	235	1,818	2,033
Total other activities	4,917	3,576	1,130	-3,530
Total non-budgetary transactions	4,149	3,070	-3,240	-7,981
Net financial source/requirement	5,836	-60	7,072	-1,662

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	5,836	-60	7,072	-1,662
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,005	3,253	-7,921	-1,410
Treasury bills	5,050	900	6,850	-2,500
Canada Savings Bonds	-1,357	-448	-1,704	-945
Other	-1	-15	-27	-196
Total	4,697	3,690	-2,802	-5,051
Foreign currency borrowings	-3,831	-218	-5,257	-3,498
Total	866	3,472	-8,059	-8,549
Obligations related to capital leases	31	-15	-9	63
Net change in financing activities	897	3,457	-8,068	-8,486
Change in cash balance	6,733	3,397	-996	-10,148

Note: Totals may not sum due to rounding.

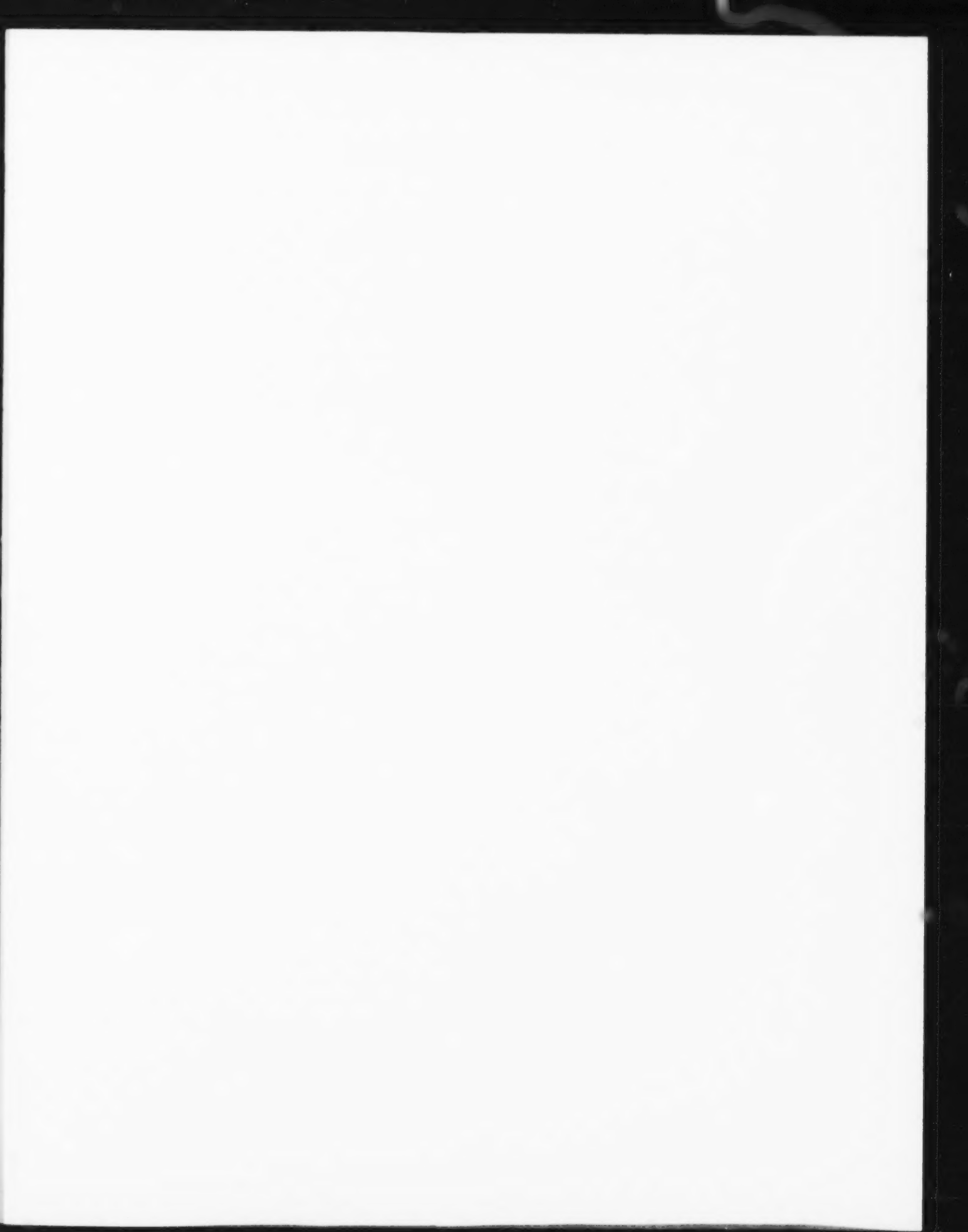
The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2005	November 30, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	84,319	-6,154
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	265,160	-1,410
Treasury bills	127,199	124,699	-2,500
Canada Savings Bonds	19,080	18,135	-945
Other	3,393	3,197	-196
Subtotal	416,242	411,191	-5,051
Payable in foreign currencies	16,286	12,788	-3,498
Obligations related to capital leases	2,932	2,995	63
Total unmaturing debt	435,460	426,974	-8,486
Pension and other accounts			
Public sector pensions	129,579	131,218	1,639
Other employee and veteran future benefits	41,549	42,588	1,039
Other pension and other accounts	8,680	5,453	-3,227
Total pension and other accounts	179,808	179,259	-549
Total interest-bearing debt	615,268	606,233	-9,035
Total liabilities	705,741	690,552	-15,189
Financial assets			
Cash and accounts receivable	76,281	66,086	-10,195
Foreign exchange accounts	40,871	40,327	-544
Loans, investments and advances (net of allowances)	33,860	36,591	2,731
Total financial assets	151,012	143,004	-8,008
Net debt	554,729	547,548	-7,181
Non-financial assets	54,866	54,004	-862
Federal debt (accumulated deficit)	499,863	493,544	-6,319

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.
 For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.
 Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
 January 2006





The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2005: budgetary surplus of \$1.0 billion

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004. Total budgetary revenues rose \$0.7 billion or 4.5 per cent, reflecting strong gains in personal income tax receipts, which were \$0.7 billion or 8.3 per cent higher. Program expenses were relatively unchanged in December, rising \$0.1 billion or 0.4 per cent. Public debt charges were \$0.1 billion lower. The December results incorporate \$0.3 billion in tax reduction measures—the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent—which pertain to the month.

April to December 2005: budgetary surplus of \$7.3 billion

For the first nine months of the 2005–06 fiscal year (April to December), the budgetary surplus is estimated at \$7.3 billion, \$3.2 billion lower than the \$10.5-billion surplus reported in the same period of 2004–05. The decline in the surplus through December reflects in part the inclusion of the estimated \$4.0-billion cost of personal income tax measures, noted above, pertaining to the full 2005 tax year. Budgetary revenues were up \$5.2 billion or 3.7 per cent. Program expenses were up \$9.0 billion or 8.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.5 billion lower.

December 2005

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004.

Budgetary revenues rose \$0.7 billion or 4.5 per cent to \$16.3 billion.

- Personal income tax receipts were up \$0.7 billion or 8.3 per cent. Receipts in December are net of the \$0.3-billion cost of the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that pertain to the month.
- Corporate income tax revenues fell \$0.2 billion or 6.3 per cent, reflecting weaker gross receipts and lower settlement payments relative to December 2004.
- Other income tax receipts—withholdings from non-residents—increased significantly in December, reflecting increases in dividends and other payments to non-residents.
- Excise taxes and duties fell \$0.1 billion or 2.4 per cent. Goods and services tax (GST) revenues declined 2.2 per cent, reflecting



The Fiscal Monitor

relatively weak growth in gross GST receipts. Customs import duties were up \$33 million, while sales and excise taxes were down \$63 million. Revenues from the Air Travellers Security Charge were down \$2 million.

- Employment insurance (EI) premiums declined 4.5 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 13.4 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in December 2005 were \$12.8 billion, up just \$0.1 billion or 0.4 per cent from December 2004. Transfers to other levels of government were up strongly, but lower operating expenses of departments and agencies offset this increase.

Transfer payments were up \$0.7 billion or 9.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$28 million or 0.8 per cent. Elderly benefits increased 3.1 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 3.8 per cent, reflecting a decline in regular benefits.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up \$0.7 billion or 27.2 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal

transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers declined by 1.0 per cent. This component is volatile on a monthly basis.

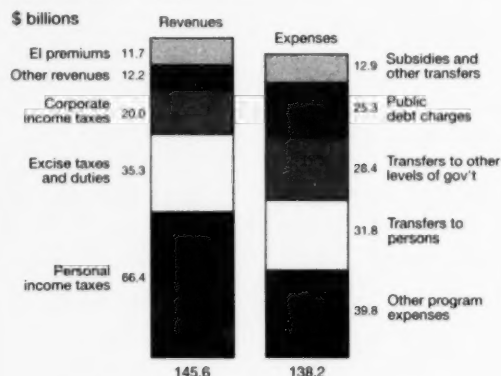
Other program expenses consist of transfers to Crown corporations and operating expenses of departments and agencies, including National Defence. On a year-over-year basis, these expenses fell \$0.7 billion or 13.4 per cent, largely reflecting lower spending by National Defence because of a one-time adjustment for Defence inventory and capital assets in December 2004.

Public debt charges decreased by \$0.1 billion or 4.4 per cent due to a decrease in the average effective interest rate on the debt.

April to December 2005

In the first nine months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.3 billion, \$3.2 billion below the \$10.5-billion surplus reported in the same period of 2004–05. This decline reflects in part the inclusion of the costs of the above-mentioned tax measures.

Revenues and expenses
(April–December 2005)



Budgetary revenues were up \$5.2 billion or 3.7 per cent to \$145.6 billion.

- Personal income tax revenues rose \$2.0 billion or 3.1 per cent.
- Corporate income tax revenues were up \$2.5 billion or 14.2 per cent, reflecting gains in corporate profitability in 2005.
- Excise taxes and duties rose \$1.7 billion or 5.1 per cent. GST revenues increased \$1.6 billion or 6.8 per cent, broadly consistent with the growth rate of retail sales of 6.7 per cent over the same period. Customs import duties were up 11.8 per cent. Sales and excise taxes were down 1.6 per cent, while the Air Travellers Security Charge was down 13.8 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were down 0.1 per cent, as the impact of the reduction in premium rates in January 2005 more than offset the increase in the number of people employed.

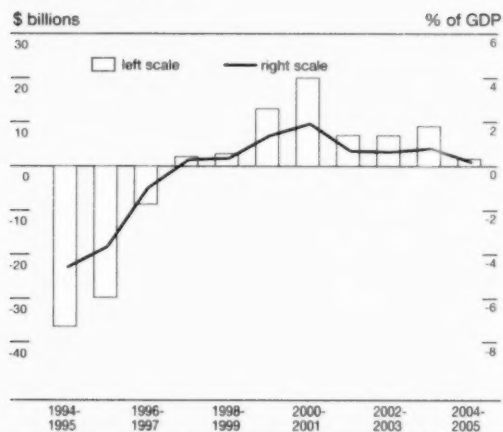
- Other revenues were down \$1.9 billion or 17.5 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April to December 2005 period were \$112.9 billion, up \$9.0 billion or 8.6 per cent from the same period of 2004-05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$7.2 billion or 10.9 per cent.

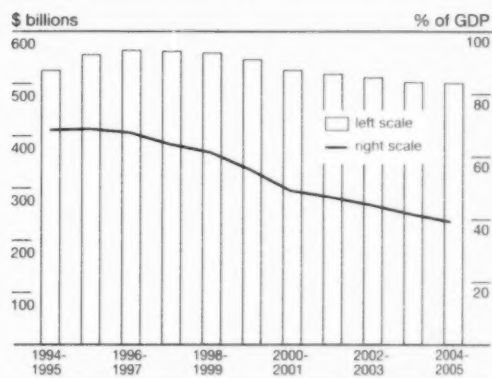
- Transfers to persons advanced by 2.0 per cent. Elderly benefits were up 4.1 per cent while EI benefits were down 2.2 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004-05.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

- Transfers to other levels of government were up \$5.5 billion or 23.8 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 9.3 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 4.7 per cent.

Public debt charges were down 2.1 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial source of \$0.1 billion for April to December 2005

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$7.2 billion in the April-to-December period, up \$3.1 billion from the requirement in the same period of 2004-05. This increase largely reflects the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$7.3 billion and a net requirement of \$7.2 billion from non-budgetary transactions, there was a financial source of \$0.1 billion in the first nine months of 2005-06 compared to a financial source of \$6.4 billion in the same period of 2004-05.

Net financing activities down \$12.7 billion

The Government used this financial source of \$0.1 billion and a reduction in its cash balances of \$12.7 billion to reduce its market debt by \$12.7 billion by the end of December 2005, largely through a reduction of marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at \$4.5 billion.

Table 1

Summary statement of transactions

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	15,637	16,336	140,348	145,563
Expenses				
Program expenses	-12,768	-12,818	-103,949	-112,937
Public debt charges	-2,639	-2,522	-25,858	-25,310
Budgetary balance (deficit/surplus)	230	996	10,541	7,316
Non-budgetary transactions	-898	730	-4,133	-7,247
Financial source/requirement	-668	1,726	6,408	69
Net change in financing activities	-11,562	-4,242	-19,630	-12,730
Net change in cash balances	-12,230	-2,516	-13,222	-12,661
Cash balance at end of period			4,024	4,458

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	December			April to December		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,835	8,486	8.3	64,424	66,435	3.1
Corporate income tax	2,680	2,512	-6.3	17,497	19,974	14.2
Other income tax revenue	284	530	86.6	2,292	3,214	40.2
Total income tax	10,799	11,528	6.8	84,213	89,623	6.4
Excise taxes and duties						
Goods and services tax	2,208	2,160	-2.2	23,554	25,157	6.8
Customs import duties	232	265	14.2	2,319	2,592	11.8
Sales and excise taxes	875	812	-7.2	7,394	7,272	-1.6
Air Travellers Security Charge	28	26	-7.1	298	257	-13.8
Total excise taxes and duties	3,343	3,263	-2.4	33,565	35,278	5.1
Total tax revenues	14,142	14,791	4.6	117,778	124,901	6.0
Employment insurance premiums	840	802	-4.5	11,713	11,704	-0.1
Other revenues	655	743	13.4	10,857	8,958	-17.5
Total budgetary revenues	15,637	16,336	4.5	140,348	145,563	3.7

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	December			April to December		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,367	2,441	3.1	20,832	21,693	4.1
Employment insurance benefits	1,200	1,154	-3.8	10,367	10,144	-2.2
Total	3,567	3,595	0.8	31,199	31,837	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		9,488	14,250	
Canada Social Transfer	652	685		5,869	6,169	
Health Reform Transfer	125	0		1,125	0	
Canada Health and Social Transfer	-23	0		0	0	
Total	1,808	2,268	25.4	16,482	20,419	23.9
Fiscal transfers	1,007	1,044	3.7	8,454	9,537	12.8
Canada's cities and communities	0	262	n/a	0	656	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,993	-2,200	10.4
Total	2,605	3,313	27.2	22,943	28,412	23.8
Subsidies and other transfers						
Agriculture	108	178	64.8	680	916	34.7
Foreign Affairs	316	215	-32.0	1,699	1,600	-5.8
Health	87	136	56.3	1,259	1,340	6.4
Human Resources Development	64	94	46.9	786	912	16.0
Indian and Northern Development	380	380	0.0	3,271	3,619	10.6
Industry and Regional Development	213	205	-3.8	1,391	1,452	4.4
Other	410	354	-13.6	2,678	3,019	12.7
Total	1,578	1,562	-1.0	11,764	12,858	9.3
Total transfer payments	7,750	8,470	9.3	65,906	73,107	10.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	91	110	20.9	864	978	13.2
Canada Mortgage and Housing Corporation	175	170	-2.9	1,515	1,536	1.4
Other	285	196	-31.2	1,530	1,351	-11.7
Total	551	476	-13.6	3,909	3,865	-1.1
Defence	1,640	1,226	-25.2	9,749	10,766	10.4
All other departments and agencies	2,827	2,646	-6.4	24,385	25,199	3.3
Total other program expenses	5,018	4,348	-13.4	38,043	39,830	4.7
Total program expenses	12,768	12,818	0.4	103,949	112,937	8.6
Public debt charges	2,639	2,522	-4.4	25,858	25,310	-2.1
Total budgetary expenses	15,407	15,340	-0.4	129,807	138,247	6.5

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	230	996	10,541	7,316
Non-budgetary transactions				
Capital investing activities	-169	-343	-1,003	-1,514
Other investing activities	50	-45	-1,383	-2,776
Pension and other accounts	691	239	-1,408	-308
Other activities				
Accounts payable, receivables, accruals and allowances	-1,894	-1,166	-6,626	-7,271
Foreign exchange activities	-86	1,769	3,959	2,313
Amortization of tangible capital assets	510	276	2,328	2,309
Total other activities	-1,470	879	-339	-2,649
Total non-budgetary transactions	-898	730	-4,133	-7,247
Net financial source/requirement	-668	1,726	6,408	69

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	-668	1,726	6,408	69
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,989	-6,582	-15,911	-7,992
Treasury bills	-3,200	2,400	3,650	-100
Canada Savings Bonds	-165	-423	-1,868	-1,368
Other	0	-8	-27	-205
Total	-11,354	-4,613	-14,156	-9,665
Foreign currency borrowings	-285	368	-5,542	-3,131
Total	-11,639	-4,245	-19,698	-12,796
Obligations related to capital leases	77	3	68	66
Net change in financing activities	-11,562	-4,242	-19,630	-12,730
Change in cash balance	-12,230	-2,516	-13,222	-12,661

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2005	December 31, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	80,245	-10,228
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	258,578	-7,992
Treasury bills	127,199	127,099	-100
Canada Savings Bonds	19,080	17,712	-1,368
Other	3,393	3,188	-205
Subtotal	416,242	406,577	-9,665
Payable in foreign currencies	16,286	13,155	-3,131
Obligations related to capital leases	2,932	2,998	66
Total unmaturing debt	435,460	422,730	-12,730
Pension and other accounts			
Public sector pensions	129,579	131,268	1,689
Other employee and veteran future benefits	41,549	42,719	1,170
Other pension and other accounts	8,680	5,513	-3,167
Total pension and other accounts	179,808	179,500	-308
Total interest-bearing debt	615,268	602,230	-13,038
Total liabilities	705,741	682,475	-23,266
Financial assets			
Cash and accounts receivable	76,281	60,663	-15,618
Foreign exchange accounts	40,871	38,558	-2,313
Loans, investments and advances (net of allowances)	33,860	36,636	2,776
Total financial assets	151,012	135,857	-15,155
Net debt	554,729	546,618	-8,111
Non-financial assets	54,866	54,071	-795
Federal debt (accumulated deficit)	499,863	492,547	-7,316

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.
 For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.
 Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
 February 2006



